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FIN 340 Final Project Guidelines and Rubric

Overview

As an investor for yourself or your clients, you have the job of developing investment objectives and a plan to achieve those objectives and then make subsequent investments in appropriate assets accordingly. This process can be collectively termed “the investment process.” It is helpful to break the process down into the four core concepts that underpin any sound investment process.

First, you must understand what you are investing in. You have to know the underlying characteristics of the investment. What type of asset is it? What type of security? How is it priced? What are the expected cash flows? Who are the typical investors and what are their typical motives? If you do not understand the answers to those questions, then the initial expectations you develop about the value and risk of the asset will be fundamentally flawed. This sets you up for missteps that can lead to underperforming your investment objectives.

Second, you must be able to estimate the value of the asset. Valuation is about assessing the estimated cash flows of the asset. This is a key component of discerning absolute return potential and the differences between competing assets. It has a significant influence on the third step in the process as well.

The third step is developing a thesis about an asset's expected return and the associated risk. This is accomplished by assessing your valuation estimates against the current market price and any developing economic or market dynamics that may impact your expected valuation or its pricing. The market is constantly changing, and these expectations need to be monitored on a regular basis to ensure they continue to correspond to the objectives you are trying to achieve.

Finally, you must understand how the assets in a portfolio interact with one another. It is likely that you will not have just one investment, so any additional assets will impact the overall performance of the portfolio. You want to formulate a plan to add assets that, when combined together, will have the potential to meet your objectives. Putting all of these steps together into a consistent, thorough process will position you to better meet the investment objectives laid out at the beginning.

The project is divided into **two milestones**, which will be submitted at various points throughout the course to scaffold learning and ensure quality final submissions. These milestones will be submitted in **Modules Three and Five**. The final product will be submitted in **Module Seven**.

In this assignment, you will demonstrate your mastery of the following course outcomes:

- Differentiate between investment vehicles, asset classes, and security types for effectively selecting investment exposures
- Apply appropriate models in determining the estimated value of stocks and bonds relative to current market prices for informing investment decisions
- Apply portfolio measures in constructing comprehensive investment portfolios that appropriately address client risk and return objectives
- Assess the risks associated with investments for their implications on expected returns

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Prompt

For this assignment, you will assume the role of a financial advisor responsible for developing an investment portfolio for a client. In developing the portfolio, you will interpret client financial information and craft a sound and informed portfolio that is personalized to the unique needs of your client. You will also select five stocks from a provided list and produce valuations by selecting the most appropriate valuation model. These valuations may also be used within the portfolio you are developing for your client.

Specifically, the following **critical elements** must be addressed:

I. **Client Analysis:** In this section, you will analyze your clients' financial documentation and determine their risk tolerance and objectives. To effectively address the critical elements in this section, you must analyze the information for both client one and client two.
   A. Analyze each client's financial documentation in order to perform the following evaluative activities. Be sure to support your analysis with relevant **client information**.
      1. Explain the clients' **risk tolerances**.
      2. Explain the clients' **return objectives**.
      3. Explain the clients' **liquidity objectives**.
   B. Using the three objectives above, write a **brief investment statement** classifying the clients into one of the following categories: growth, income, or capital preservation. Justify your response with specific client information.

II. **Stock Analysis:** In this section, you will select five stocks from the provided list and determine their values by applying an appropriate valuation model from the following options: price to multiple model (earning or sales), dividend valuation model, or free cash flow to equity valuation model.
   A. **Determine the value** of each stock by using an appropriate model based on the characteristics provided for each stock; use each model at least once.
   B. Provide a rationale for the **stock valuation method** you chose for each stock. Cite specific information to support your decisions.
   C. Using the calculated valuation, the current market price, and historical performance, determine the **expected return** for each stock.

III. **Portfolio Development:** In this section, you will develop a portfolio for a client (Ezra or Jacob and Rachel) based on the client's risk tolerance, return objectives, and liquidity objectives. You will select appropriate assets from the provided list.
   A. For the client, **develop a portfolio** from the list of assets provided that is informed by your analysis of the client's objectives and (if applicable) the stock valuation you determined.
   B. Calculate the **expected portfolio return** using the CAPM (beta) model. Based on the risk tolerance and return objective of the client you didn't choose for this assignment, would you design an investment portfolio that has a higher or lower expected portfolio return, and why?
   C. Calculate the **expected** portfolio **standard deviation**. Based on the risk tolerance and return objective of the client that you didn't choose for this assignment, would you design an investment portfolio that has a higher or lower expected standard deviation, and why?

IV. **Portfolio Performances**

A. Provide a **rationale** to present to the client for the portfolio you have developed. In your rationale, include specific examples to support your recommendations, and be sure to address the following:
   1. Explain how your recommendations align with the client's **risk tolerance**.
   2. Explain how your recommendations align with the client's **return objectives**.

B. Using the provided ex-post portfolio return statistics, evaluate the **portfolio's performance** and compare it to its appropriate benchmark. In your evaluation, be sure to address the following:
   1. Calculate **portfolio return**.
   2. Calculate the **Sharpe ratio** for the portfolio and benchmark.
   3. Calculate the **Treynor's measure** for the portfolio only.
   4. Calculate **Jensen's measure** for the period for the portfolio only.

Milestones

Milestone One: *Client Analysis*
In **Module Three,** you will create a draft of the client analysis portion of the final project. **This milestone is graded with the Milestone One Rubric.**

Milestone Two: *Stock Analysis and Portfolio Development*
In **Module Five,** you will submit a draft of the stock analysis and portfolio development portions of the final project. This milestone is graded with the **Milestone Two Rubric.**

Final Submission: *Portfolio and Rationale*
In **Module Seven,** you will submit your portfolio and rationale. It should be a complete, polished artifact containing **all** of the critical elements of the final product. It should reflect the incorporation of feedback gained throughout the course. **This milestone will be graded using the Final Project Rubric.**

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Final Project Rubric

Guidelines for Submission: Your submission should be 5–7 pages, double spaced, with 12-point Times New Roman font, one-inch margins, and APA formatting. Work must be shown for all calculations. You may use and upload an Excel workbook to show your calculations. In your written paper, if you are referring to data that is found within an uploaded Excel workbook, be sure to include a citation—for example, "the portfolio's expected return is 7.2% (E64, Sheet1, WB1)," where E64 is the cell that the calculation took place in, Sheet1 is the tab, and WB1 is designating the name of your file. This ensures that your instructor can quickly and accurately check data entry, formula use, and financial calculations.

Critical Elements	Exemplary	Proficient	Needs Improvement	Not Evident	Value
Client Analysis: Client Information: Risk Tolerances	Meets "Proficient" criteria, and response demonstrates a nuanced understanding of client risk tolerance causes (100%)	Explains the clients' risk tolerances, supporting the explanation with relevant client information (85%)	Explains the clients' risk tolerances, supporting with client information, but explanation is missing components, or supporting information is missing or contains inaccuracies (55%)	Does not explain the clients' risk tolerances (0%)	6
Client Analysis: Client Information: Return Objectives	Meets "Proficient" criteria, and response demonstrates an advanced ability to extract a thorough and accurate summary of client return objectives (100%)	Explains the clients' return objectives, supporting the explanation with relevant client information (85%)	Explains the clients' return objectives, supporting with client information, but explanation is missing components, or supporting information is missing or contains inaccuracies (55%)	Does not explain the clients' return objectives (0%)	4.8
Client Analysis: Client Information: Liquidity Objectives	Meets "Proficient" criteria, and response demonstrates an advanced ability to extract a thorough and accurate summary of client liquidity objectives (100%)	Explains the clients' liquidity objectives, supporting the explanation with relevant client information (85%)	Explains the clients' liquidity objectives, supporting with client information, but explanation is missing components, or supporting information is missing or contains inaccuracies (55%)	Does not explain the clients' liquidity objectives (0%)	4.8
Client Analysis: Brief Investment Statement	Meets "Proficient" criteria, and response comprehensively portrays each client's investment objectives (100%)	Writes a brief investment statement based on client analysis and classifies clients into a category, justifying response with specific client information (85%)	Writes a brief investment statement based on client analysis and classifies clients into a category, justifying response with specific client information, but response is missing components, or supporting information is missing or contains inaccuracies (55%)	Does not write a brief investment statement (0%)	4.8

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Stock Analysis: Determine the Value		Accurately determines the value of each stock using an appropriate model based on the characteristics provided for each stock (100%)	Determines the value of each stock, but determination contains inaccuracies, or model applied is not appropriate (55%)	Does not determine the value of each stock (0%)	8
Stock Analysis: Stock Valuation Method	Meets "Proficient" criteria, and response demonstrates keen insight into the appropriate application of stock valuation methods (100%)	Provides a rationale for the stock valuation method chosen for each stock, citing specific information to support decisions (85%)	Provides a rationale for the stock valuation method chosen for each stock, but rationale is missing components or misaligned, or information cited is not relevant or nonexistent (55%)	Does not provide a rationale for the stock valuation method chosen for each stock (0%)	6
Stock Analysis: Expected Return		Accurately determines the expected return for each stock based on the calculated valuation, current market price, and historical performance (100%)	Determines the expected return for each stock based on the calculated valuation, current market price, and historical performance, but determination is missing components or contains inaccuracies (55%)	Does not determine the expected return of each stock (0%)	6
Portfolio Development: Develop a Portfolio	Meets "Proficient" criteria, and response demonstrates keen insight into the integration of client objectives to develop a diverse and comprehensive portfolio (100%)	Develops portfolio from the lists of assets provided that are informed by an analysis of the client's objectives (85%)	Develops portfolio from the lists of assets provided that are informed by an analysis of client's objectives, but portfolio is missing components or is illogical (55%)	Does not develop a portfolio for the client (0%)	6
Portfolio Development: Expected Portfolio Return		Accurately calculates the expected portfolio return for a portfolio using the CAPM model and accurately discusses the other client (100%)	Calculates the expected portfolio return using the CAPM model, but calculation contains inaccuracies or the other client is not accurately discussed (55%)	Does not calculate the expected portfolio return using the CAPM model or does not discuss the other client (0%)	8
Portfolio Development: Expected Standard Deviation		Accurately calculates the expected portfolio standard deviation for the portfolio and accurately discusses other client (100%)	Calculates the expected portfolio standard deviation, but calculation contains inaccuracies or other client is not accurately discussed (55%)	Does not calculate the expected portfolio standard deviation or does not discuss other client (0%)	8

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Portfolio Performances: Rationale: Risk Tolerance	Meets "Proficient" criteria, and response makes cogent connections between portfolio recommendations and the client's risk tolerance (100%)	Explains how the recommendations align with the client's risk tolerance, including specific examples (85%)	Explains how the recommendations align with the client's risk tolerances, but explanation is misaligned or missing components or specific examples (55%)	Does not explain how the recommendations align with the client's risk tolerance (0%)	6
Portfolio Performances: Rationale: Return Objectives	Meets "Proficient" criteria, and response makes cogent connections between portfolio recommendations and the client's return objectives (100%)	Explains how the recommendations align with the client's return objectives, including specific examples (85%)	Explains how the recommendations align with the client's return objectives, but explanation is misaligned or missing components or specific examples (55%)	Does not explain how the recommendations align with the client's return objectives (0%)	6
Portfolio Performances: Portfolio's Performance: Portfolio Return		Accurately calculates the portfolio return (100%)	Calculates the portfolio return, but calculations are missing components or contain inaccuracies (55%)	Does not calculate the portfolio return (0%)	6
Portfolio Performances: Portfolio's Performance: Sharpe Ratio		Accurately calculates the Sharpe ratio for the portfolio and benchmark (100%)	Calculates the Sharpe ratio, but calculation is missing components or contains inaccuracies (55%)	Does not calculate the Sharpe ratio (0%)	6
Portfolio Performances: Portfolio Performance: Treynor's Measure		Accurately calculates Treynor's measure for the portfolio (100%)	Calculates Treynor's measure but calculations contain inaccuracies (55%)	Does not calculate Treynor's measure (0%)	4.8
Portfolio Performances: Portfolio's Performance: Jensen's Measure		Accurately calculates Jensen's measure for the portfolio (100%)	Calculates Jensen's measure, but calculations contain inaccuracies (55%)	Does not calculate Jensen's measure (0%)	4.8
Articulation of Response	Submission is free of errors related to citations, grammar, spelling, syntax, and organization and is presented in a professional and easy-to-read format (100%)	Submission has no major errors related to citations, grammar, spelling, syntax, or organization (85%)	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas (55%)	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas (0%)	4
				Total	**100%**