

FIN 670 Final Project I Guidelines and Rubric

Overview

The first final project for this course, due in Module Nine, will be a **portfolio proposal** based on a case study approach. You will choose a case study from the options presented. Based on the problem presented within the case study, you will develop a portfolio that recommends specific derivative instruments and options to address the problem. In your portfolio management recommendation, you will provide a rationale for the instruments that you chose, and will support your rationale with financial information. You will attach a spreadsheet as an appendix and will support your decisions with that data. This high-level rationale should include risks and benefits of the recommended derivative instruments, as well as an explanation of how you will address ethical considerations.

You will choose one of these case studies from your HBR Coursepack:

[Principal-Protected Equity-Linked Note](#)

This case puts you in the shoes of a private banker who wants to price a structured note from European high-net worth clients with low levels of risk tolerance. The principal-protected equity-linked note provides investors with fixed income. As you read this case, you can learn to teach put-call parity, option strategies, and Black-Scholes pricing.

[The Bombay Stock Exchange: Liquidity Enhancement Incentive Programmes](#)

This case study illustrates the importance of liquidity and how stock exchanges compete with each other for liquidity. It asks a basic question: Which is more important, liquidity or profit? The case compares the purchased order-flow concept in United States and other major exchanges globally with LEIPs, which are introduced and used in India.

[Betting on Failure: Profiting From Defaults on Subprime Mortgage](#)

This case explains the working of credit default instruments and how they were used in the mortgage markets. It also describes how credit default swaps can be used to speculate on the value of an underlying financial instrument. As you read this case, think about the potential risks and rewards of various financial investment strategies that look to capitalize on defaults.

(The second final project for this course, due in Module Ten, is a **presentation** in which you will outline the decisions you made and rationale for those decisions as you created your portfolio. You will discuss how investors will make money based on your recommendations. The presentation provides an opportunity for you to show how you would present complex financial information to an intended audience of stakeholders. See the Final Project II Guidelines and Rubric document for details on that project.)

The ability to create a portfolio of derivative instruments and present that information to an intended audience of stakeholders is an invaluable skill in the professional financial field. You will choose one of three case studies to create a portfolio proposal and present this information to stakeholders. When these options and derivative instruments are presented, it is important to consider how the instruments you choose could potentially result in financial gains or mitigate losses for the company or investor and to be able to articulate the rationale behind those choices. It is, of course, equally important to speak to risks,

potential losses, and ethical considerations, and to be able to address both internal and external factors that could impact investment return. A skilled financial practitioner will be able to forecast the behavior of these instruments on the market and support this with relevant examples.

This assessment addresses the following course outcomes:

- Analyze the functions of derivative instruments within a financial context for supporting portfolio management and corporate finance decisions
- Determine risks and benefits of derivative types for identifying their impacts on investment return
- Assess the impacts of extrinsic and intrinsic factors on the value and price of a derivative instrument for articulating their influence on portfolio management and corporate finance decisions
- Develop portfolio management and corporate finance decisions in compliance with ethical and professional standards
- Evaluate the potential gains and losses of derivative instruments based on economic and market expectations

Prompt

Portfolio Proposal: For this assessment, you will recommend specific derivative instruments to address the needs of a problem within the case study scenario that you chose, and provide rationale to support those recommendations. The portfolio proposal should be submitted as a Microsoft Word document. The portfolio proposal will also include a spreadsheet as an appendix. The spreadsheet will include computational analysis of the recommended instruments' price performance in response to both intrinsic and extrinsic factors, as well as their impact on mitigation of identified risks.

Specifically, you must address the **critical elements** listed below. Most of the critical elements align with a particular course outcome (shown in brackets).

I. Portfolio Proposal: Recommendations and Rationale

- A. Recommend three or four different types of **derivative instruments** to address the issue presented in the case study you chose, providing a rationale for each recommendation based on current market information and specific examples.
- B. Discuss the current **instrument performance**, including market expectations for each recommendation, forecasting how the strategies outlined will position the portfolio in achieving its objectives.

II. Portfolio Proposal: Risks and Benefits

- A. Discuss potential **risks and benefits** associated with each instrument and how those risks could have an impact on return.
- B. Assess the impacts of multiple **extrinsic and intrinsic factors** that the company will want to consider based on how they influence value and price.

III. Portfolio Proposal: Spreadsheet Appendix

- A. Calculate the potential **price impact** of extrinsic and intrinsic factors, and expected mitigated risk value of recommended derivative instruments. Present this information in your spreadsheet, and include it as an appendix.

IV. **Portfolio Proposal: Financial Considerations**

- A. Evaluate potential gains and losses under **best- and worst-case scenarios** for each instrument recommended, using data to support your claims. Include charts, graphs, and tables to show this information.
- B. Discuss implications associated with accurately and **ethically representing gains and losses** and explain how you plan to mitigate potential ethical risks.

V. **Portfolio Proposal: Ethical and Professional Standards**

- A. Discuss which elements of the CFA Institute's **Code and Standards** specifically should be considered in relation to the instruments recommended in the context of the portfolio objectives.

VI. **Portfolio Proposal: Conclusion**

- A. Discuss how the recommended derivative instruments will present **opportunities** to achieve the portfolio objectives and increase shareholder value.

Milestones

Final Project I Milestone One: Investment Policy Statement: Recommendations and Rationale

In **Module Three**, based on your understanding of the financial situation presented in your chosen case study scenario, you will recommend three to four different types of derivatives to address the investment need(s) of the firm featured in the scenario. **This milestone will be graded with the Final Project I Milestone One Rubric.**

Final Project I Milestone Two: Risks and Benefits and Price Impact

In **Module Five**, you will discuss the potential risks and benefits associated with each of the derivative instruments that you are recommending to address the needs of the problem within the case study scenario—including how these risks and benefits can have an impact on the company's return. You will also calculate the potential price impact of the derivative instruments that you are recommending and evaluate the best- and worst-case scenarios for each. In addition, you will discuss the implications associated with accurately and ethically representing the gains and losses and explain how you will mitigate the potential ethical risks. **This milestone will be graded with the Final Project I Milestone Two Rubric.**

Final Project I Submission: Portfolio Proposal

In **Module Nine**, you will submit your final portfolio proposal. The proposal should be 6–8 pages in length, and should include revised Milestone One and Milestone Two (Critical Elements I and II as outlined above) with incorporated feedback from the instructor, along with Critical Element Sections IV (Financial Considerations), V (Ethical and Professional Standards), and VI (Conclusion). **This submission will be graded with the Final Project I Rubric (below).**

Final Project I Rubric

Guidelines for Submission: For this project, you will submit a portfolio proposal that should be 6–8 pages in length, using 12-point Times New Roman Font, double spacing, and one-inch margins. This should also include your spreadsheet as an appendix, and use the latest guidelines for APA formatting as needed.

Critical Elements	Exemplary	Proficient	Needs Improvement	Not Evident	Value
Portfolio Proposal: Recommendations and Rationale: Derivative Instruments	Meets “Proficient” criteria and provides a sophisticated rationale; current market information and examples chosen show keen insight into impacts on recommendations (100%)	Recommends different types of derivative instruments to address the issue presented in the case study chosen, providing a rationale for each recommendation based on current market information and specific examples (90%)	Recommends different types of derivative instruments to address case study, but rationale provided lacks detail and/or supporting market information and examples are cursory (70%)	Does not recommend different types of derivative instruments to address the issue presented in the case study (0%)	11.24
Portfolio Proposal: Recommendations and Rationale: Instrument Performance	Meets “Proficient” criteria and the forecast of how the strategies outlined will position the portfolio in achieving its objectives demonstrates a sophisticated understanding of the strategies’ impact on the portfolio objectives (100%)	Discusses the current instrument performance for each recommendation, forecasting how the strategies outlined will position the portfolio in achieving its objectives (90%)	Discusses current instrument performance for each recommendation, but forecast of how the strategies outlined will position the portfolio are inaccurate or cursory (70%)	Does not discuss current instrument performance for each recommendation	8.43
Portfolio Proposal: Risks and Benefits: Risks and Benefits	Meets “Proficient” criteria and explanation of benefits and how risk could impact return demonstrate a complex grasp of the potential impacts of risk and benefit (100%)	Discusses potential risks and benefits associated with each instrument and how those risks could have an impact on return (90%)	Discusses potential risks and benefits associated with each instrument, but explanation of benefits and of how risks could have an impact on return is lacking in detail (70%)	Does not discuss potential risks and benefits associated with each instrument	11.24
Portfolio Proposal: Risks and Benefits: Extrinsic and Intrinsic Factors	Meets “Proficient” criteria and external and intrinsic factors identified and assessment of impact demonstrate a complex grasp of factors that influence investment decisions (100%)	Assesses the impacts of multiple extrinsic and intrinsic factors that the company will want to consider based how they influence value and price (90%)	Assesses extrinsic and intrinsic factors that the company will want to consider in its investment decisions, but factors identified or assessment is illogical (70%)	Does not assess extrinsic and intrinsic factors that the company will want to consider in its investment decisions	11.24

Portfolio Proposal: Spreadsheet Appendix: Price Impact		Calculates the potential price impact of extrinsic and intrinsic factors and expected mitigated risk value of recommended derivative instruments; information is presented in a spreadsheet appendix (100%)	Calculates the potential price impact of extrinsic and intrinsic factors and expected mitigated risk value, but calculations are illogical (55%)	Does not calculate potential price impact of extrinsic and intrinsic factors (0%)	11.24
Portfolio Proposal: Financial Considerations: Best- and Worst-Case Scenarios	Meets “Proficient” criteria and data used to support claims demonstrates a complex grasp of potential gains and losses (100%)	Evaluates potential gains and losses under best- and worst-case scenarios for each instrument recommended, using data to support claims (90%)	Evaluates potential gains and losses under best- and worst-case scenarios, but explanation is cursory, or data used to support claims is illogical (70%)	Does not evaluate potential gains and losses under best- and worst-case scenarios for each instrument recommended	8.43
Portfolio Proposal: Financial Considerations: Ethically Representing Gains and Losses	Meets “Proficient” criteria and explanation of how to mitigate potential ethical risks demonstrates a sophisticated awareness of potential ethical risks (100%)	Discusses implications associated with accurately and ethically representing gains and losses and explains plan to mitigate potential ethical risks (90%)	Discusses implications associated with accurately and ethically representing gains and losses, but explanation of how to mitigate potential ethical risks is lacking in detail or is illogical (70%)	Does not discuss implications associated with accurately representing gains and losses	11.24
Portfolio Proposal: Ethical and Professional Standards: Code and Standards	Meets “Proficient” criteria and discussion of the elements of the CFA Institute’s Code and Standards shows cogent connections to the recommendations made within the context of the portfolio objectives (100%)	Discusses which elements of the CFA Institute’s Code and Standards specifically should be considered in relation to the instruments recommended in the context of the portfolio objectives (90%)	Discusses which elements of the CFA Institute’s Code and Standards should be considered in relation to the instruments recommended, but connections to the portfolio objectives are illogical or cursory (70%)	Does not discuss which elements of the CFA Institute’s Code and Standards specifically should be considered in relation to the instruments recommended in the context of the portfolio objectives	11.24
Portfolio Proposal: Conclusion: Opportunities	Meets “Proficient” criteria and response demonstrates a sophisticated awareness of opportunities to achieve portfolio objectives and increase shareholder value (100%)	Discusses how the recommended derivative instruments will present opportunities to achieve the portfolio objectives and increase shareholder value (90%)	Discusses how the recommended derivative instruments will present opportunities to achieve portfolio objectives and increase shareholder value, but explanation is cursory or illogical (70%)	Does not discuss how the recommended derivative instruments will present opportunities to achieve the portfolio objectives and increase shareholder value	11.24

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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 (90%)	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas (70%)	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas	4.46
Total					100%