

**STALLA SEMINARS**  
**Level 3 Textbook Errata**  
**2003 Exam Edition**

Date	Lesson	Page	Errata Item																				
01/28/03	2	L2-16	Last line on the page in bold should read: “For an MA(q) model, the autocorrelations of the first q <i>data items</i> will be significantly different from zero, ...”																				
02/11/03	2	L2-58	Middle of the page should read: “The manager would have <i>increased</i> the portfolio return by <b>0.20% (0.55 – 0.35)</b> .”																				
01/28/03	3	L3-41	Second equation on the page should NOT be raised to the ½ power: $\sigma_p^2 = [a^2 \sigma_{US}^2 + (1-a)^2 \sigma_{rw}^2 + 2a(1-a)\sigma_{US}\sigma_{rw}\sigma_{US,rw}]$																				
02/05/03	4	L4-61	Question #8 answer choices should read as: a. -6.78% b. -2.74% c. 1.54% d. 6.09%																				
04/01/03	4	L4-66	Question #24 answer choice b should read as: “Immunization has lower risk and potentially <b>lower</b> cost.”																				
01/28/03	4	L4-70	Answer to #8: The reinvestment income should be \$900 making the right half of the table read as follows: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Reinvestment Income</th> <th>Total Dollar Return</th> <th>Effective Return 1 yr.</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>900</td> <td>(67,755)</td> <td>-6.78%</td> </tr> <tr> <td>2</td> <td>900</td> <td>(27,435)</td> <td>-2.74%</td> </tr> <tr> <td>3</td> <td>900</td> <td>15,392</td> <td>1.54%</td> </tr> <tr> <td>4</td> <td>900</td> <td>60,900</td> <td>6.09%</td> </tr> </tbody> </table>		Reinvestment Income	Total Dollar Return	Effective Return 1 yr.	1	900	(67,755)	-6.78%	2	900	(27,435)	-2.74%	3	900	15,392	1.54%	4	900	60,900	6.09%
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03/04/03	5	L5-31	The “Total Returns” row in the table below the LOSs should read as: Unhedged ( $R_{H,i}$ ) = $r_i + e_{H,i}$ Proxy-Hedged ( $PR_{H,i}$ ) = $r_i + e_{H,i} - e_{H,i} + (c_H - c_i)$																				
02/05/03	5	L5-72	Question #3 answer choice c should read as: “c. The portfolio decreased in value by 2.5% and the index decreased by 1.9%.”																				
01/28/03	5	L5-75	Answer #3 Step 1: $\begin{aligned} \text{Bond contribution} \\ \text{to index duration} &= .20 \times 5.5 \\ &= 1.10 \end{aligned}$ Step 2: $\begin{aligned} \% \Delta \\ \text{of index} &= -1.10 \times .0175 \\ &= -.01925 = -1.9\% \end{aligned}$																				
02/05/03	5	L5-76	Answer #4 Step 1: $\begin{aligned} \text{Bond contribution} \\ \text{to portfolio duration} &= .16 \times 5.0 \\ &= .80 \\ \text{Bond contribution} \\ \text{to index duration} &= .18 \times 5.5 \\ &= .99 \end{aligned}$																				
04/01/03	5	L5-77	Answer to #11 should be <b>D</b> . The solution is correct as written.																				
04/01/03	6	L6-22	The last bullet point on the page should read as: “Once the individual assets are identified,...Portfolio implementation should be monitored to control transaction costs to assure that the <b>cost of implementing the trades</b> does not exceed the <b>benefits</b> of the trades....”																				

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02/11/03	6	L6-71	Question #13 should read: "All of the following are true about the <b>middle years</b> phase for individual investors <b>except</b> :" Questions #15 and 16 use terms that have been replaced. The current readings use terms that are roughly analogous to the following: Adventurer = Spontaneous, Celebrity = Cautious, Guardian = Methodical.
04/08/03	7	L7-63	Essay #5 is a duplicate of essay #1.
04/08/03	7	L7-65	Essay #6 is incomplete. The answer should be disregarded.
04/11/03	8	L8-35	The first equation should read as: $D_P V_P = D_A V_A + D_F V_F$
04/01/03	8	L8-36	The last formula on the page in the shaded box: $Dollar\ Duration =  V_P D_E \Delta r $
04/11/03	8	L8-39	The last column in the table in the middle of the page should read as: <b># of Contracts</b> <b>to Sell (-) or Buy(+)</b> = -90 = +85 = -95 = +59
02/11/03	8	L8-44	The calculator keystrokes at the bottom of the page for the HP12C should read as: "...7 PMT 7.86 i 1.012000 Enter..."
02/11/03	8	L8-57	Middle of page should read: "Net effective interest costs will be \$5,475,000 (-\$5,775,000 + \$300,000)..."
04/01/03	8	L8-79	Questions numbered 35, 36, and 37 should be moved to the Lesson 9 Homework section.
04/18/03	8	L8-81	Answer to question #6: $HR = beta = 1.2$ $N_F = \frac{-HR \times Portfolio\ Size}{Futures\ Price \times 250} = -1.2 \frac{500,000,000}{250 \times 1,022}$ $= \underline{\underline{-2348\ contracts}}$
03/17/03	8	L8-85	Answer to question #31: 9.58% is the yield on the target bond with a price of 90 (to protect against a decline of more than 10%). 9.08% and 10.08% are 50 bps above and below the target yield. Assuming a stable yield spread of 155 bps, the yield on the target CTD is <b>8.03%</b> (shown as 8.08%). <b>7.53%</b> and <b>8.53%</b> are 50 bps above and below 8.03%. The resulting prices are <b>84.67</b> and <b>76.41</b> respectively. This makes the dollar duration of the most deliverable bond -\$8.26 per \$100 of par. The number of contracts remains 34.
01/28/03	9	L9-7	Equation above the picture at the bottom of the page should read as: $-1.0 \leq \Delta_p \leq 0$
01/28/03	9	L9-26	First paragraph under table at the top of the page should read as: "Borrow the \$34.00 today to create a loan payable of 34.84 ( $\$34 \times (1.05)^5$ )..."
04/01/03	9	L9-76	Last equation on the page should read as: $Dealer's\ Financing\ Cost = \frac{Total\ Return\ on\ Bonds}{Total\ Return\ on\ Bonds} + (LIBOR + 1\%) - LIBOR$
04/01/03	9	L9-97	Answer to #30 should read as " <b>I and IV</b> benefit if the DM..."
05/02/03	10	L10-83	Answer to #24: Both C and D are correct answers.

Date	Lesson	Page	Errata Item
03/04/03	10	L10-100	<p>The equations for Tracking Error should be the square roots:  <i>Smith Mountain Tracking Error</i></p> $TE_C = \sqrt{(\beta - 1)^2 \sigma_M^2 + \sigma_e^2} = \sqrt{(1.15 - 1)^2 (.22)^2 + (.32)^2}$ $= \sqrt{(.0225)(.0484) + .1024} = \sqrt{.001089 + .1024}$ $= \sqrt{.1035} = \underline{\underline{32.17\%}}$ <p><i>Craft Tracking Error</i></p> $TE_{SM} = \sqrt{(\beta - 1)^2 \sigma_M^2 + \sigma_e^2} = \sqrt{(1.15 - 1)^2 (.22)^2 + (.06)^2}$ $= \sqrt{(.0225)(.0484) + .0036} = \sqrt{.001089 + .0036}$ $= \sqrt{.0047} = \underline{\underline{6.8\%}}$
03/04/03	11	L11-16	<p>Example at the bottom of the page, eliminate the negative signs in the equations for T<sub>A</sub> and T<sub>B</sub>.</p>
03/04/03	11	L11-29	<p>In the table at the top of the screen, under the Security Selection Return the fourth row should read as 1.0 – 1.4 = <b>-4</b></p>
03/04/03	12	L12-21	<p>Question #3, Roman numeral I should read as: “<b>Five</b> years of ...”</p>
02/05/03	12	L12-30	<p>Answer to Essay #2: calculation should read as:</p> $r_G = (1 + r_1)(1 + r_2) \dots (1 + r_n) - 1$ $= (1 + .049)(1 + .043)(1 + .039)(1 + .056) - 1$ $= 1.20 - 1 = \underline{\underline{20\%}}$