DEPARTMENT OF FINANCE, INSURANCE, & LAW
COLLEGE OF BUSINESS
ILLINOIS STATE UNIVERSITY
FIL 242 Investments
Fall 2009 – Ahlgrim
Market Watch Project

OVERVIEW

This group project requires that you invest $100,000 for a fictional client and report your activity and results to your client. Groups will be randomly assigned.

CREATING A PORTFOLIO

As soon as possible after August 31st, go to the Virtual Stock Exchange (VSE) at http://vse.marketwatch.com to sign up your group. NOTE: Only one person per group needs to sign up for the entire group – designate one person to register your group on the VSE site.

(1) First you need to register with the site. Near the middle of the screen, click the "Please register" link which will bring you to the registration page.
(2) Fill out the information requested on this page. Note that the "Display name" that you choose will be the group name that everyone in class sees when comparing portfolio performance. For this name, you should choose a name for your investment management company. Assuming you care, choose a name that cannot be directly linked to your group to preserve a bit of anonymity (I wouldn't choose "Ahlgrim Investments", but perhaps I would choose "MetallicaInvests"). Also, don't choose a name that may be offensive to anyone. I reserve the right to delete your group's portfolio (without warning) if I deem the name to be offensive. When naming your group, error on the side of conservatism. In subsequent visits to this site, you will log in using the email you chose and the password you created. If one person created the login, let everyone else in your group know the login name and password. Also, by September 9th, send me an e-mail (kahlgrim@ilstu.edu) with your login (company) name and all of your group members' names – I need to match group names with people in the class. If you don't send me this e-mail, I can't give you credit for any Market Watch assignments.
(3) After filling out the registration form, you can then "join" the game that was created to include all of the FIL 242 groups in a designated area of VSE. This allows us to compare portfolio results. To do this, after you have logged in, there should be a link on the left hand margin "Find a game to join." Enter the following information (note that information is case sensitive):
    a. In the box "Enter Game ID": ISUFIL242F09 (that's a "zero"9 at the end)
    b. After clicking the "Find this game" arrow, it will bring you to a screen in which you are going to enter the password in a box near the bottom: redbirds
    c. Click "Join Game"
(4) After that, you can start trading. You can always review the rules of the contest by following the link "Overview / Rules" from the VSE site. Note that commissions are charged per trade ($30 per trade), any uninvested cash earns interest (4%), short sales and margin trading is allowed, and the minimum stock price is $2.

INVESTMENT STRATEGIES

After you have signed up on VSE, it's time to start investing. You are free to pursue any 100% stock strategy that you want - it should be noted that we will not talk about stock valuation until the second half of the course. Therefore, a detailed quantitative analysis of your investments is not the point of the assignment.

Before buying any stock, make sure that the ticker symbol exists on BOTH Yahoo! Finance (finance.yahoo.com) and on Baseline. This ensures that you can find information on the stock and report back to your client. Stock symbols have up to 5 letters with no punctuation marks in the symbol. For example, MSQ.IJ is not a valid stock symbol since it has a period.

You may want to place a bet on specific companies that you've heard about in the news, perhaps you are a consumer of their product, or watch companies that have a hot new product, etc. There are millions of possible investment strategies that you can use. Perhaps you have even heard of some specific investing strategy (e.g., low P/E ratio stocks). Now is the perfect time to try it out to see if it works, especially since you are not risking any of your own real money. Meet with your group to define a specific strategy before investing to make sure that your entire portfolio has some consistent theme. At all times, remember that you are investing on behalf of a fictional client.

Some resources to consider on Yahoo! Finance:

- Stock screener - http://screen.yahoo.com/stocks.html. Helps select stocks based on very general criteria, like past earnings growth and the like. Also note their preset screens on the left hand side.
- Industry browser – http://biz.yahoo.com/ic/ind_index.html. If you are interested in specific industries, check out this page. If you link to any industry, you can get a listing of all the stocks that Yahoo classifies under that industry. For example, to see all of the companies under agricultural chemicals (the first industry listed), follow the link. Then, on the next page, click on "industry browser" on the left hand side. This industry browser allows you to sort the companies in various ways (alphabetical, by size, etc.).

Aside from the very vague guidelines for trading, there are a limited number of investment requirements for this assignment:

- *Ticker symbol in Baseline:* Before you trade in any stock, make sure the ticker symbol is available in Baseline. Later, when you report back to your client, you will need some information about the company that is only available on Baseline.
- *Amount invested*: Your client has given you the money to invest in the stock market. Therefore, you need to have at least 50% of your money invested in the stock market by the end of the first reporting period and at least 90% invested by the end of the second period.
- *Reasonable diversification*: You should not risk too much of your money in only a few bets. Be sure to spread your money out across at least 10 stocks by the end of the semester. Diversification also means don't make significant bets within the same industry.
- *Reverse trades*: You must close out two of your positions before the end of the project. This means if you have long positions (you've only bought stock), then you must sell at least two of them. (If you have all short positions, you must close out at least two).

<u>ASSIGNMENTS & GRADING</u>

"Monthly" Reports (2) – 1st report 20 points, 2nd report 30 points

- 1st report timeline: Trading through Monday, October 5th, report due Friday, October 16th (or earlier)
    - To hand in: transaction report, income statement, and position report (see market watch accounting spreadsheet and instructions). Take the time to have each member of the group review the final product to be sure that they are all consistent! Your client depends on your accuracy!
- 2nd report timeline: Trading through Monday, November 2nd, report due Friday, November 13th (or earlier)
    - The second report is accompanied with a client letter.
- A spreadsheet will be posted to the course web site to help in formatting the monthly reports. The spreadsheet links three separate reports to show investment results for your investor. A discussion of these reports is on a separate document.
    - *Transaction report* shows all of the activity (every single trade) in the account since the inception of the portfolio
    - *Position report* is a "balance sheet" (snapshot) of investments for the investor as of a specific date
    - The *income statement* shows income events (interest on uninvested cash balances and dividends paid on stocks). The income statement is needed to complete the other reports.

Client Letter – Accompanies 2nd monthly report, 40 points

- Requirements:
    - Think of yourself as the client. What type of information would you like to see from your investment manager?
    - Summarize your trading activity over the semester to the investor who hired you as the investment manager. Summarize does not mean you have to detail every single trade.
    - Provide a <u>one-page summary</u> of two to four economic issues that impacted the financial markets over the investment period (economic releases, company failures, geopolitical events, natural disasters, etc.). Explain how you believe these issues affected investors – describe the issue to someone who doesn't watch the economy and the markets. In essence, you are letting your client know about the investment climate during the semester. The tone should convey whether or not it was a good time to invest and why.
    - What was the total return on your portfolio? Be sure to relate your performance to numbers that are specifically on your monthly reports.
    - Compare your results to the returns from some other appropriate benchmark over the period (such as the S&P 500). Look at my portfolio in VSE – I'm 100% invested in the S&P 500. Therefore, the return on my portfolio is the return on the S&P.
    - Explain the lackluster performance of your worst performing stock – don't say why you chose it, but explain why it did poorly.
- Caveats:
    - Maintain a professional, formal tone at all times. Grammar counts so be sure that everyone in the group has read through the letter looking for errors. And use spell checker!
    - Do not apologize for poor returns nor brag of great returns.
    - Do not guarantee any performance – past, present, or future.

    - No more than 2 pages of written text. Business letters are generally single-spaced with double spaces between paragraphs. Note the two pages might seem pretty short since one page is taken up by the market summary.

Peer Evaluations – 10 points

- Part of the final grade for this report is how other members of your group evaluate your contribution to the project. The purpose of these evaluations is not to assess how much you liked your group, rather to understand whether all group members contributed to the final project. In extreme cases, lack of contribution by any group member may influence the points they receive in the project.
- Don't wait to let me know about problems with your group. The more I know before the formal peer evaluations, the more severe the penalty will be to shirkers. In rare instances, one member of the group may be fired by the other members.

Performance – Bonus points

If the project does not motivate you to track the stock market, perhaps awarding bonus points will. Assuming the return performance of your portfolio exceeds the benchmark portfolio of the S&P 500, bonus points will be given to the best performing groups. Rankings are available on VSE.

- 6 points to each member from the best group (highest return)
- 4 points awarded to the second best group
- Recognizing that good performance is due to luck over a short period, the worst performing group will also earn 4 bonus points as the anti-luck group. Of course, to earn the anti-luck points, you do not need to beat the S&P 500.

OTHER COMMENTS

- Throughout the project, don't forget that you are working on behalf of a client. Maintain a professional tone and present your results without any errors. If you were the client, would your like to see "ERROR" messages on your reports?
- Some students despise group projects. However, group projects will be a way of life for you in the business world. There is virtually no way to become successful in anything without having the ability to work well with others.
- You may already have experience working with individuals who are lazy on the job. Sometimes, you have to accept the fact that you work harder than some of your co-workers. Again, let me know as early as possible if you experience any problems with your groups (e.g., member constantly misses meetings, fails to return e-mails).
- Since peer evaluation counts toward your final grade (and it may affect the total points earned for the market watch project), you should make significant effort toward contributing to your group's assignments.
- Be sure the whole group has time to review the final product before handing it in. Don't assign separate tasks the night before the due date – the compiled project will not be cohesive and will frustrate your client.