ECON 313: FINANCIAL ECONOMICS

Creating a Portfolio Project

The MarketWatch® (http://marketwatch.com/) project is a stock trading simulation project. The purpose of this continuing exercise is to provide hands-on experience with financial instruments discussed in class. It is to be done individually. The purpose of this project is to provide you with some experience in portfolio management in a fairly realistic environment.

Suppose that an alum of St. Lawrence University has just donated a $100,000 to the Department of Economics. In addition, congratulations, you have been hired as a portfolio manager to manage this fund. Although, the initial fund is pretend cash, this simulation provides you actual prices of most securities in most markets. Upon hiring, the department comes up with the following specific trading rules and guidelines. These are:

1. You may only trade U.S. listed stocks (NO options, futures, mutual funds, or any investment companies allowed). ETFs and ADRs are exceptions, they are allowed.
2. You can long or short any retail stock with a minimum price of $5.
3. Each execution will cost $9.99.
4. Margin trading is allowed. The interest rate on margin trading is 8 percent.
5. Cash balances earn no interest.
6. There also diversification limits in place limiting your ability to invest in only a single security at any one time. You cannot allocate more than 20% of your money to any stocks.
7. The objective of this fund is to outperform the standard benchmark, S&P 500.
8. The department (i.e., the owner of this fund) believes that for portfolio managers to earn their high salaries, they are required to engage in active trading. This means that you must perform a minimum of 50 trades and a maximum of 200 trades. (A trade consists of opening or closing a position—so, buying 100 shares in AAPL would be 1 trade, and selling those shares would be another trade.)
9. You have to diversify your portfolio.
10. Your cash balance should never be more than $25000.
11. Your main grade on this project will be based on the quality of your analysis, not on your total return per se.
12. However, since most portfolio managers are compensated based on their performance, the college is offering the following compensation arrangement. If you accept this arrangement, then you are entitled to the following bonus points
    - Finishing in the top 5 places 1% added to your portfolio project score
    - Out-perform the S&P 500 1% added to your portfolio project score
    - Under-perform the S&P 500 1% deducted from your portfolio project
    - Finishing in the bottom 5 places 1% deduction from your portfolio project

Here is the link to join the game:

https://www.marketwatch.com/game/econ313-stlawu

Please register using your real name and STLAWU email by September 15th, 2021. You will have two-week practice round and you need to familiarize yourself with the rules and trading system. Your portfolio will be reset on October 1st, 2021 and the real stock investment competition will start on October 1st, 2021. The portfolio must have at least five stocks and have remaining cash less than $25,000 on December 1st, 2021.

You will need to enter the following information to enter our private competition:

- Game Name: ECON 313 STLAWU
- Password: stlawu313

You will be responsible for managing a portfolio of $100,000 in imaginary money. You are now ready to begin trading. You will need to identify, research, and *gradually* trade retail equities over the course of the semester. Keep track of reasons why you considered making the investments and why you chose to adjust your positions.

During the semester, you must:

- Use at a least 3 of the trading types listed below.
- Purchase two to ten stocks (of products that you buy).
- Keep track of all of the above by keeping a file that lists your trades.

At the end of the semester, you will prepare a 3 to 4 page **final report (of text not including tables)**. Your final report should provide:

- [at least ½ page] a description of your trading objectives and trading strategy (i.e. what type of stocks did you plan to invest in);
- [at least ½ a page] a discussion about how your trades fit your trading strategy with a table summarizing your final portfolio with a table summarizing your final positions
- [at least ½ page] a discussion about the RISKS to your portfolio and how the current state of monetary and fiscal policy, and the pandemic have affected your decisions.
- [at least a page] an evaluation or comparison between ANY two stocks in your portfolio. (Information should include price, market capitalization, Beta, PE Ratio and forward dividend yield, etc.)

Explanation of Trade Types

Buy Market
An order to buy equity shares at the current available market price. This order will be filled at the current market price, provided there is enough trading volume to process a given trade.

Buy Limit
An order to buy equity shares at a specified price, or better. Buy-limit orders can be used to specify the maximum price that an investor is willing to pay for equity shares, and will be executed only once that price (or a better one) is available.

Buy Stop
An order to buy equity shares once a specified price level is breached. This type of order can be used by momentum traders who wish to buy shares in a company only once the stock price has moved upwards past a threshold level (such as a 200 day moving average), indicating upward momentum that is expected to continue.

Sell Market
An order to sell equity shares at the current available market price. This order will be filled at the current market price, provided there is enough trading volume to process a trade.

Sell Limit
An order to sell equity shares at a specified price, or better. Sell-limit orders can be used to specify a minimum price for which you are willing to sell equity shares, and will be executed only once that price (or a better one) is available. They can be useful if you have a target selling price in mind but are unable to frequently monitor your portfolio.

Sell Stop
Also known as a "stop-loss order", a sell stop is an order to sell equity shares once a specified price level has been breached. With this type of order, you specify a "stop price", which will trigger an automatic sale of your shares once a stock's price falls to the stop price or lower. This can be useful as a safety net, limiting your potential losses to the difference between the purchase price and stop price.

Sell-Short Market
An order to short sell equity shares at the current available market price. In a short sale, you essentially borrow shares from your broker and sell them on the market, in the hope that the share price will decrease. If it does, you can buy the shares back in the open market and return them to your broker, pocketing the difference between the (higher) sale price and the (lower) purchase price. This order will be filled at the current market price, provided there is enough trading volume to process your trade.

Sell-Short Limit
An order to short sell equity shares at a specified price, or better. Sell-short limit orders can be used to specify a minimum price for which you are willing to short sell equity shares, and will be

executed only once that price (or a better one) is available.

Sell-Short Stop
An order to short sell equity shares once a specified price level is breached. This type of order can be used by momentum traders who wish to short sell shares in a company only once the stock price has moved downwards past a threshold level (such as a 200 day moving average), indicating a downward momentum that is expected to continue.

Buy-to-Cover Market
An order to cover a short position in your portfolio by repurchasing shares at the current market price. To complete a profitable short sale, you need to first short sell a stock, and then (with any luck) repurchase the shares on the open market at a lower price. When you repurchase the shares, this is called "covering" your short sell and, therefore, the trade is called "buy to cover".

Buy-to-Cover Limit
An order to cover a short position in your portfolio by repurchasing shares, but only once a specified price, or better, has been reached. This order can be entered to set up an automatic cover of your short position once a stock's price has fallen to your target covering price. A buy-to-cover limit is useful if you have a target price in mind but are unable to frequently monitor your portfolio.

Buy-to-Cover Stop
Similar to a sell-stop order, this order type will exit your position automatically once a specified loss level is reached. In a buy-to-cover stop order, you specify a maximum price that, when reached, triggers a covering purchase of your shorted shares. Remember: in a short sale trade, the higher the price moves after your short sale, the greater your losses.