

# Main Things You Need to Know About the Course

## FINA 4330 "Trading Strategies and Financial Models"

### 1 What This Course Is About

The course is about multiple well-known deviations from the CAPM usually called "anomalies". Some of them, like the value effect or momentum, are usually briefly discussed in the intro investments course (FINA 4310 "Survey of Investments"), most of them are never mentioned. This course will offer a comprehensive coverage of trading on the anomalies, including the risks of doing so, the trading costs, and the ways to maximize the gains from trading and spot the biggest cases of mispricing.

The main idea of the course is to cover an anomaly one week and trade on the anomaly in StockTrak next week. This is a hands-on course; you not only learn about things, but you also learn how to do things.

In terms of future career paths, this is the course for future financial advisors and those who want to be in the middle-office of investment banks.

The beauty of the course is that the trading strategies are relatively simple, and anyone who understands them well can use them, for example, for managing his/her personal finances. So, this is a course for everyone: it can be useful for you irrespective of the career path you follow.

### 2 What This Course Is Not About

This course is about stocks, but not currencies or derivatives. We have separate courses that cover those: FINA 4320 Derivatives and FINA 4810 International Finance.

This course is not a course in stock picking. We will discuss classes of stocks that outperform or underperform the benchmark models, but we will not go deep into the financials of each particular stock. The good thing about this approach is that the trading strategies we discuss would normally only require you to run a stock screener, which is fast once you learn how, and you will not need to perform time-consuming valuation for each stock you need to trade. However, if you are interested in valuation and stock picking, you should consider taking FINA 4210 or ACCT 4050.

This course is not a course in day trading or high-frequency trading, which, again, makes it more widely and easily applicable, but you should not expect to learn much about trading desks, technical analysis, algo trading, etc.

### **3 Navigating the Course**

The course is fast-paced and the level of difficulty peaks early, since the first four weeks aim to lay out the toolbox we will use throughout the course. Moderate amount of confusion in the first four weeks is OK, because we will apply the concepts we learn in the first four weeks to different anomalies over and over again for the rest of the course, and you will have time to get used to them. They will become much clearer and more familiar by the midterm, not to mention the end of the course, than they seem to be by the end of week four.

The projects have a learning curve, since many technical skills used in Project 1 come useful in Projects 3, 4, and on. Subjectively, you will feel that projects become "easier" and you will spend less time doing them. Thus, do not be discouraged by the struggles early on (and by all means ask for help).

The hardest project is Project 2, it gets better from there.

Your worst grade for the eight projects does not count, which means that you can skip/bomb one project with no penalty. Those who are happy with their grades for the first seven projects normally do not do the last one. The last one is the "sinner's project" and it takes a bit more time to complete than others.

### **4 Studying for the Midterm**

The best tool for studying for the midterm is to go through the sample midterms and their solutions (on eLC, in a separate folder). If you understand each solution and why it corresponds to the question asked, you will do fine on the real midterm.

The degree of similarity between the sample midterms and the real one will be even greater than the degree of similarity between the sample midterms.

The key material for studying is in Chapters 4-7 of the textbook. The midterm covers Chapters 1-11, but Chapters 4-7 present the "toolbox".

In-class non-graded quizzes, projects, and cases (in this order) contain questions similar to midterm questions. However, you will not be tested directly on cases.

Historically, the class average on the midterm is between 65 and 70. The low average and relatively high variance serve two purposes. First, you are not punished for silly mistakes. Second, you have the chance to control your destiny and do noticeably better (in relative terms) than on the group projects. If the average was at 90, even one missed multiple choice question would mean a lot and you would not be able to be significantly above the average and make up for a poor project.

## **5 Always Ask for Help**

The course brings together the material from investments, statistics, and computers (FINA 4310 and MSIT 3000 are pre-requisites, FINA 4920 is not, but it is suggested to take it before or with this course unless you are very good at Excel on your own).

I understand that people come into the course with different backgrounds, and I am always willing to help you catch up on something. There is no assumption on my part that you absolutely have to know this and that. All kinds of questions are welcome, be it CAPM, t-statistics, dealing with Excel, or making a stock screener work. The only thing I cannot do is to give away answers to particular questions in a project.

## **6 Working in Groups**

Most of the coursework is on StockTrak and you are allowed to form groups of up to four people to work on StockTrak. Thus, a significant part of your grade will be tied to the performance of your group. While it is no problem if you change groups or split from a group and work alone, try to choose your group wisely.

## **7 What Previous Generations of Students Had to Say**

- "Read the book and study the power point before class to get the most out of class"
- "The class is easy assuming you either like or are good at Excel"
- "The practice exams on eLC were very thorough and provided an excellent template"

for what the midterm would look like. The practice exams also offered excellent explanations of what the answers were and why they were what they were”

- ”I think you should make us read the textbook”
- ”Finding a way to motivate students to actually read the cases would be great”
- ”Encourage students to choose a group to work with”
- ”I wish I had started reading the solutions to the projects earlier”

## 8 Bonus for Help with Textbook

The textbook we use for the course is still work-in-progress. I will greatly appreciate any suggestions that would help to make it better.

In particular, I am willing to give the following bonuses to attentive readers:

- 0.05% of the course grade for each time you catch a typo (spelling/grammar/commas/etc), capped at 0.25% of the course grade for the cases when you catch the same typo more than five times (say, if ”Monday” is spelled ”monday” throughout the book)
- 0.25% of the course grade for each time you catch a wrong statement (say, the textbook says ”low institutional ownership firms have low shorting costs” instead of saying ”low institutional ownership firms have high shorting costs”)
- Up to 0.5% of the course grade for nice examples of what we cover in class from WSJ/Fortune/etc. I am looking here for graphs/pictures/a few paragraphs that can be inserted in the text and illustrate the concepts we discuss

You may report the typos and corrections any time and any way you wish. The last day to report them and get a bonus is the day of the last class.