

Project 1 - Short-Sale Constraints

Due on September 2

FYOS 1001 - Fall 2014

Trading and Risks

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This project requires you to use Stocktrak and to try to make profit on the overpricing of short-sale constrained firms. You are required to take buy at least five stocks and to short at least five stocks. You may choose the dollar amounts you like as long as you keep your investment in each stock below \$50K. You may find an online stock screener helpful - for example, Yahoo Finance provides a good one. Keep in mind, however, that no stock screener can screen on all criteria you may want to screen on - sometimes you may have to use more than one screener and sometimes you may have to collect the info manually stock-by-stock.

- i. Select the stocks you intend to short. Report the tickers, your investment in each stock, and the values of the characteristics that led you to believe that these stocks are a good shorting target. Make sure that at least three characteristics are the ones we discussed in class. *Describe the reasoning why* these characteristics make your firms a good shorting target. (60 points)
- ii. Select the stocks for the long side of your position. Try to make your total position as close as possible to a riskless arbitrage position - a position that requires no money down and exposes you to no risk. Please report your investment in each

stock you buy, as well as the appropriate firm characteristic for each stock bought and sold short that you rely on to form the total portfolio with no systematic risk.

(30 points)

- iii. Explain why the long side is necessary for the long-plus-short strategy to work and why the stocks on the long side do not have to be mispriced. *(10 points)*