

Stocktrak: Rules and Requirements

FINA 4310 - Spring 2012
Survey of Investments

1 Stocktrak Grade Composition

Stocktrak portion of the course accounts for 25% of the course grade. The Stocktrak portion consists of three components:

- Trading and complying with requirements - 20%
- Performance evaluation write-up at the end of the trading period - 40%
- Weekly reports - 40%

Also, you have three bonuses:

- Beating the passive portfolio at the four intermediate dates - 12% (3% for each intermediate date)
- Beating the passive portfolio at the end of the trading period - 10%
- Ending among the top three groups at the end of the trading period - 8%

2 Registering and Teamwork

If you wish to, you can trade in teams of up to four people. The team need not coincide with the team you do homework in. Since registering the account costs \$26.95, trading in teams is cost-efficient. However, you are welcome to go on your own or with only one or two partners if it works best for you.

To register your account, follow the link

<http://www.stocktrak.com/public/members/registrationstudents.aspx?p=UGA-FINA4310-Spring2012> (clickable in the pdf).

Trading starts on January 17, but you can register your account anytime before that date.

Please note that it may take up to two days between when you register and when the system lets you trade, so registering early is encouraged.

You may switch Stocktrak trading groups, but you have to notify me when you do it. I do not limit your movements between the groups, but it is your responsibility to ensure that you get the credit for what your current group does.

3 Stocktrak Trading

Stocktrak is a simulation trading environment, which lets you trade in financial instruments using real-life prices. Under the rules of the course, you can buy stocks, bonds, futures, and options. You are not allowed to buy mutual funds, because they do the job of investing for you. The starting balance in your trading account is \$500,000.

There are two requirements you have to comply with:

- You have to make sure that 80% of the account value is invested at the end of each week
- Each week you have to perform at least four trades (in the first week you have to make at least 8 trades, because you have to invest 80% and you cannot invest more than 10% in one security).

The trading lasts for 11 weeks (12 calendar weeks, 1 week falls on the spring break, and you are not required to make trades then). If you violate any of the two requirements *once*, it does not cost you anything. *Each* additional violation will cost you 1% of the Stocktrak grade.

I count "value invested" as the sum of long and short positions. For example, you start with \$500,000 initial balance. You can buy stocks for \$300,000, short stocks for \$100,000, and it will count as "80% invested", even though you are left with \$300,000 cash balance.

Please remember that it costs nothing to buy a futures. Hence, even a massive futures action will not count toward the "80% invested".

Also, the Stocktrak has other rules that are enforced automatically:

- You cannot hold more than 10% of the account value in each security (that is, you cannot make trades that will violate this rule; if you break this rule because one of the stocks in your portfolio grows in value, it is OK)

- Similar, but 5% limit applies to options, futures, and spots
- You cannot buy stocks with price per share less than \$1 (usually not traded on exchanges) and short stocks with price per share less than \$3
- The maximum number of trades during the 12 weeks of the course is 200. You can make less than 200 trades (the minimum is 48 - 8 trades in the first week, four trades a week in the other 10 weeks). It is your responsibility to make sure that you have the ability to make the required 4 trades per week in the final weeks of the course if you start trading heavily early on.
- You are not allowed to trade internationally
- The commission is \$10 per trade

4 Weekly Reports

Weekly reports about what you did last week are due each Monday. Each report should provide brief reasons why you chose to make the four (or more) trades you made during the week. The reasoning behind the trades can challenge the theories studied in the course, but should make economic sense. I request that your reports record your holdings (securities and their values) at the end of each week and daily portfolio values for the past week.

The reports will be graded out of 3 points: 3 - exceptionally good (about 20% of the groups), 2 - OK (about 70% of the groups), 1 - poor (about 10% of the groups). You can think of 2 as a 100% score and the extra point as a bonus.

There are 11 trading weeks, but you have to turn in 10 reports. The last report about the last week of trading is optional. If you choose to hand it in, its grade will replace the worst grade you had for the previous reports. If you did not hand in one of the reports, the optional report can fill in for that.

A note on timing: on January 23 I expect your first report describing the trades you performed between January 17 and January 20. On January 30, I expect the report describing the trades made between January 23 and January 27, etc.

If your team does not make enough trades, your report will get an automatic 1. If you did not make enough trades, but would rather have 1 than 0, you can describe the trade(s) that you did make or the trades you intend to make.

The report should be maximum two letter-size pages long (it can be shorter).

5 Passive Portfolio and Intermediate Dates

You will compete against a passive portfolio which will resemble something you are likely to see as a default allocation in your 401k. I will create the portfolio on January 17 and will make no trades since then. You will get the end-date bonus (10% of the Stocktrak grade) if on April 6 the value of your portfolio exceeds the value of the passive portfolio.

We will also have four intermediate dates: February 3, February 24, March 23, and April 6. If you beat the return of the passive portfolio between the intermediate dates, you will receive the intermediate date bonus (3% at each intermediate date).

Example #1: Suppose you had a poor start and on February 3, your portfolio is worth \$400,000, and the passive portfolio stands unchanged at \$500,000. Then between February 3 and February 24, you did much better and recovered the value of your portfolio to \$500,000. In the meanwhile, the passive portfolio also gained \$100,000. Then your return is $\$500K/\$400K = 25\%$, and the return of the passive portfolio is $\$600K/\$500K = 20\%$. It means that you have beaten the passive portfolio and you receive the bonus (3% of the Stocktrak grade) for the second intermediate period, February 3-24.

Example #2: Suppose you had a good start and your portfolio grew to \$600,000 in the first three weeks, while the passive portfolio was stalling at \$500,000. You get the bonus for the first three weeks. Then your portfolio stalled at \$600,000 for the next three weeks and the passive portfolio grew to \$550,000. You get no bonus for the second three weeks: even if your portfolio still beats the passive portfolio on value, you trailed its return 0% to 10%.

6 Final Performance Report

When trading ends, I will ask each team to provide the write up analyzing their performance. The format of the report will be announced on April 6. You will need the daily series of returns and weekly summary of the holdings.