

Stocktrak: Rules and Requirements

FINA 4330 - Fall 2014

Trading Strategies and Financial Models

1 Stocktrak Grade Composition

Stocktrak portion of the course accounts for 50% of the course grade. The Stocktrak portion consists of two components:

- Eight anomalies projects - 5% of the course grade each, the worst grade of the eight does not count
- Performance evaluation write-up at the end of the trading period - 15% of the course grade

Also, you receive a bonus of 3% of the course grade if you are among the top three teams at the end of the trading period.

2 Registering and Teamwork

If you wish to, you can trade in teams of up to four people. Since registering the account costs \$28.95, 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-FINA4330-Fall2014> (clickable in the pdf).

Trading starts on August 25, 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 only buy stocks. The starting balance in your trading account is \$500,000.

The Stocktrak has several 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)
- You cannot buy stocks with price per share less than \$0.25 (usually not traded on exchanges) and short stocks with price per share less than \$1
- You cannot buy or sell more than 25% of the daily volume
- The maximum number of trades during the 13 weeks of the course is 300. You can make less than 300 trades. It is your responsibility to make sure that you have the ability to make the required trades in the final weeks of the course if you start trading heavily early on.
- You are not allowed to trade internationally
- You are not allowed to trade in derivatives and mutual funds
- The commission is 0.1% of the trade value

4 Anomalies Projects

The scheme of the course is that after we cover an anomaly in class, you will have to form an arbitrage portfolio that tries to profit from the anomaly. I will distribute the detailed instructions about what I expect you to do and how your report should look like. Normally, you will have a week for stock picking and trading and a week for the write-up, though the trading period for one anomaly and the write-up period for another may eventually overlap.

Generally speaking, you will be required to buy five or more appropriate stocks and to short five or more appropriate stocks. In the report, you will need to explain why the

stocks you chose should be the part of the trading strategy that exploit the anomaly in question and present some data analysis (report some of their characteristics, like financial ratios and trading data, run a regression, compute a measure, etc.) You have to make sure that you exploit the anomaly as well as you can using all the knowledge you received in class.

You are also welcome to use other characteristics when you pick individual stocks in addition (but not instead of) the characteristics we pay attention to in class. At your discretion, you may or may not describe this additional thought process in your report. I will not formally grade it, but I may give you some bonus points if I particularly like it.

Fudging the data in the report is a form of cheating. If you take a P/E ratio from the ceiling instead of looking it up on Yahoo Finance, or if you make up the regression output, you will get zero points for the report. Keep in mind that even if you did no trades for some reason, you are better off acknowledging that you did not trade, describing what you should have done, and getting rather generous partial credit than fudging the numbers and getting zero points.

Other form of trading activity not related to exploiting the anomalies is discouraged. That is, I do not want you to try and make profit on a stock that is not a part of any arbitrage portfolio we are forming or have formed. However, you can do some rebalancing in the portfolios you formed before if this rebalancing serves the purpose of exploiting an anomaly better.

5 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 November 13. You will need the daily series of returns and weekly summary of the holdings.