

# FYOS 1001-81677: Trading and Risks

## Course Syllabus

Fall 2014

### Instructor

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**Office Hours:** Tuesdays and Thursdays, 2:30 to 3:30, and by appointment

**Contact Notes:** *The best way to contact me is via e-mail (not eLC).*

### Meeting Time and Location

Tuesdays, 5:00 to 6:15, Baldwin 0101B

First day of class: 8/19/2014

Last day of class: 10/14/2014

### Course Description

The course introduces the students to main financial instruments – stocks, bonds, futures, and options, – and discusses three main considerations of whether to trade or not to trade – risks, trading costs, and likelihood of mispricing.

### Course Objectives

After completing the course, the student is expected to:

- Understand the main motives and the main risks of trading in stocks, bonds, futures, and options
- Understand the basics of market efficiency, the CAPM, and their implications
- Be able to evaluate expected trading costs for a stock
- Be able to predict the strength of mispricing
- Be familiar with several well-known anomalies

## **Tentative Course Outline**

The pace of the course is somewhat flexible and could speed up or slow down depending on student interest and comprehension.

**August 19** Stocks and Bonds. Trading on the Margin.

**August 26** Short Sales. Zero-Investment Portfolios. Short-Sale Constraints and Future Returns.

Reading: EMH and Trading Costs, pp. 26-34 (see course website)

**StockTrak Project #1 is assigned.**

**September 2** StockTrak Project #1 is due.

Multiples Valuation. Value Effect.

**September 9** Efficient Market Hypothesis and Capital Asset Pricing Model

Reading: EMH and Trading Costs, pp. 3-17 (see course website)

**In-class Quiz #1**

**September 16** Behavioral Finance. Value Effect: An Application

Reading: Anomalies, pp. 10-15, 19-20, 30-37 (see course website)

**StockTrak Project #2 is assigned.**

**September 23** StockTrak Project #2 is due.

Trading Costs: Bid-Ask Spread and Price Impact

Reading: EMH and Trading Costs, pp. 17-26 (see course website)

**September 30** Momentum

Reading: Anomalies, pp. 39-44, 52-59 (see course website)

**In-class Quiz #2**

**StockTrak Project #3 is assigned.**

**October 7** StockTrak Project #3 is due.

Futures and Options

**October 14** Review/Catch-Up/StockTrak Wrap-Up

**In-class Quiz #3**

**October 21** Optional Final

## Changes to the Syllabus

The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

## University Honor Code and Academic Honesty Policy

As a University of Georgia student, you have agreed to abide by the University's academic honesty policy, "A Culture of Honesty," and the Student Honor Code. All academic work must meet the standards described in "A Culture of Honesty" found at [www.uga.edu/honesty](http://www.uga.edu/honesty). Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

## Required Course Material

**Stocktrak:** [www.stocktrak.com](http://www.stocktrak.com). Register at

<http://www.stocktrak.com/public/members/registrationstudents.aspx?p=UGA-FYOS-Fall2014>

**Readings:** "EMH and Trading Costs" and "Anomalies", available on eLC.

## Grading

The course grade will be based on:

- Three StockTrak projects - 25% of the course grade each, 75% total
- Three short in-class quizzes - 5% of the course grade each, 15% total
- Attendance - 10% of the course grade (each missed class is worth 1%)
- If you wish, you can take the final exam. If you choose to do so, the final will be one-third of the course grade, and the things above will be two-thirds of the grade with the same weights
- If you finish in top 3 on StockTrak, you will receive a bonus of 5% of the course grade

The grade is on the curve (i.e., it is possible to get 70% for the assignments and still get an A, if others do even worse).

For each assignment or exam, you will get two grades: the raw grade (written on the text of the assignment or the exam by the grader) and the curved letter grade (reported to you by me via eLC). The curved letter grade will be preliminary and will not impact the letter grade for the whole course. At the end of the semester a separate, though similar, curve will be created based on the weighted average of the raw grades in order to produce the letter grade for the course.

## **StockTrak**

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.

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 and futures
- 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 10 weeks of the course is 200. You can make less than 200 trades. It is your responsibility to make sure that you have the ability to make the required 10 trades per project in the final weeks of the course if you start trading heavily early on.
- You are not allowed to trade internationally
- The commission is 0.1% of the trade amount

You will be assigned three projects that will require to open at least 10 positions each (the projects will specify the criteria, by which you should select stock, but you will be free to determine the identities of particular stocks you trade in). You can also trade on your own in an effort to maximize the value of your portfolio.

## **Late Homework Policy**

Projects turned in one business day later lose 10%. Projects turned in a weekend later lose 20%. Projects turned in more than three calendar days later receive no points. Please refer to the text of the projects for the specific dates.

## **Electronic Submissions**

All written assignments should be submitted in printed form. Please reserve e-mail submissions for emergencies and special circumstances.

If you have to submit your work via e-mail, please make sure it is easily printable (e.g., if you wrote your answers on an Excel spreadsheet, hit print preview and make sure the lines do not continue on the next page, printing would not mean printing out 10 pages of data inputs, etc.)

## **Optional Final**

One week before the final date, I will post preliminary grades on eLC. If you like the grade, you do not have to show up for the final, and you do not have to tell me anything. The preliminary grade will become your course grade on the day of the final.

If you want to improve on the preliminary grade, you have to inform me within three days from the day I post the preliminary grades on eLC about your intent to take the final. I will also post on eLC a document that will help you to gauge your chances of improving the course grade on the final.

## **Attendance Policy**

Attendance will be taken during each class (except for the October 21 class that is reserved for the optional final). If you have to miss a class due to a medical condition, an emergency, etc., please notify me *before* class. Each absence without prior notification will cost you 1% of the course grade.

## **Bonus for Help with Readings**

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

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

- 0.1% of the course grade for each time you catch a typo (spelling/grammar/commas/etc), capped at 0.5% 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)
- 0.5% 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 1% 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.

## **"Formula Sheets" for the Exams**

You are allowed to bring a finance/scientific calculator and a "Formula Sheet" into the final. The "formula sheet" can be at most a double-sided letter-sized sheet ("letter-sized" is the paper you put into a printer). The contents of the "formula sheet" is completely up to you. It may be handwritten, printed or copied, it may be formulas, slides, questions from the sample exams, etc.

There will be no "formula sheets" for the quizzes, but you are allowed to bring in a calculator.

### **Withdrawal Policy**

You can withdraw with a W grade no later than August 31, providing that you attend classes and trade on Stocktrak. After that date, your grade will depend on the projects you have completed or should have completed. No projects completed means WF. If your project score falls in the lowest 10% in class, it is also WF.

### **Policy for make-up of examinations**

If you expect to miss a quiz for an approved reason, you must provide me with a formal written note or e-mail regarding the situation **before** the exam – plus a note from a physician or other relevant person within one week following the missed exam.

The date and time of a make-up quiz will be flexible, but you should expect to take the make-up quiz during my office hours.

There will be absolutely no make-ups for the final. Remember, there will be no final unless you ask for one – just do not ask for it if you cannot make it to the test.