

## **Econ 422: Investment Capital & Finance**

Investment Project Description

Summer 2010

This assignment provides an opportunity for you to go through the thought and action process involved in real world portfolio management. You will be introduced to financial assets and to financial market transactions.

**Overview:** Out of the graciousness of my heart I have decided to provide you with \$100,000 (of play money). This windfall is yours to invest as you see appropriate. In the real world private individuals and businesses alike are confronted with this same issue of how to invest core investment assets, windfalls such as inheritances, allowances, marital settlements, business revenues, etc.

**Assignment #1: Due Monday, August 9.** You will be required to invest the \$100,000 upon receipt. You will be required to use the Friday, **August 6, 2010 closing prices** as provided on any of numerous financial websites (e.g. finance.yahoo.com, [www.wsj.com](http://www.wsj.com) etc.). See the class project page for a list of financial websites.

Select from the allowable set of investment securities subject to the restrictions listed below. Once you have determined your investments, please complete the Worksheet entitled 'Assignment 1' in the *Excel Spreadsheet ECON 422 Trading Sheet* available for download on the course website. Please read the Instructions for the Worksheet carefully so as not to overwrite any necessary formulas.

I encourage you to work on this assignment in groups, but each individual needs to turn in their own report and no duplicated portfolios will be accepted.

***You will be required to turn in your spreadsheet for Assignment #1 on Monday, August 9, 2010.***

### **Portfolio Rules:**

-You may purchase any combination of stocks or American Depository Receipts (ADRs—shares of foreign companies trading on US exchanges) as listed on the NYSE, AMEX, NASDAQ; corporate, government or agency bonds; mutual funds, exchange traded funds (ETF), options, money market or any other security for which you can retrieve price information.

-All cash must be invested; i.e., any amount you would like to leave with maximum liquidity will need to be invested in a money market fund. There are no commissions associated with transactions in money market funds

-You must purchase at least five different securities and no more than twenty securities.

-You must purchase at least one bond, one stock, one mutual fund, one ETF, and one option (put or call).

-Assume I have provided you the cash via a wire to an account held with Fidelity Investments. Your transactions will be subject to commission schedule at Fidelity (available on the class project page).

-You can trade as often as you like but will be required to document all transactions and appropriate commissions, including all relevant documentation for prices.

-Any dividend paying stock or bond may during the course of the project make a dividend or coupon payment. This income will need to be documented in your transaction log. You need to own the stock on the day before the exdividend date to receive the dividend. You will add the cash to your account on the dividend payable date. Similarly, any coupon payment will be added to your account on the date payable. For information about dividends paid during the quarter you can consult [finance.yahoo.com](http://finance.yahoo.com) or Barron's, and for information regarding bond coupon payment dates you can consult [finance.yahoo.com](http://finance.yahoo.com), [cxa.marketwatch.com/finra/MarketData/Default.aspx](http://cxa.marketwatch.com/finra/MarketData/Default.aspx), or *Moody's* bond manuals. (To avoid this accounting, you can elect non-dividend paying stocks and/or Treasury Strips, which are zero-coupon bonds.)

-When you purchase shares of a mutual fund be sure to check the minimum investment required. [www.morningstar.com](http://www.morningstar.com) can provide you with this information. Funds can be either load or no-load. To simplify the fee calculation, I recommend you purchase no-load funds, as there are no sales fee or commissions associated with these purchases. Be aware that mutual funds may pay dividends and/or distributions. These are reported in the *Barron's* Mutual Fund table in "Weekly Statistics" or are typically available on the fund website.

-The conventional denomination for bonds is usually \$1,000. Bond prices however are quoted as the price per \$100 so that a \$1000 Face Value bond trading at \$99 would cost you \$990. Use the Fidelity Corporate Bond commission rates for all note or bond transactions. You can buy newly issued Treasury securities from Federal Reserve Banks and branches without paying commissions. The prices are listed in the newspaper or on the Federal Reserve websites. If you purchase a bond in the secondary market, i.e., a previously issued bond, you will need to pay an amount associated with the accrued interest since you will receive the full coupon payment in the future without necessarily having held the bond for the full six months you will need to prorate the interest that is being carried with the bond and make this payment to the seller.

-Common stocks typically trade as 'round lots' or 100 share lots.

-Stock options trade in contracts of 100 shares. The price of the contract quoted is for one share, i.e., you will need to multiply by 100. You are not allowed to engage in 'naked' option trading, i.e., you may only purchase or sell plain vanilla options (calls and puts) if you already own the underlying security, i.e., no option speculating allowed.

-Should you wish to make a purchase on margin, i.e., via borrowings against your portfolio assume the margin requirement on the stock is 50%. You will be subject to a borrowing rate of 1% plus the broker 'call rate' which is listed in the *Wall Street Journal* Money Rates. Use the highest rate for the broker call rate. You are still subject to commissions. Be aware if your portfolio value falls significantly you could be subject to a margin or maintenance call.

-You are allowed to short a stock, i.e., sell it without owning it, but you will be required to buy it back before or on the terminal date. Securities in equal value to the position sold need to be maintained in an escrow account as collateral, i.e., you can trade these positions but you are restricted from allowing your account value to decline below collateral requirements and should the value of the stock you borrowed increase, you will be required to increase your collateral. Assume you do not earn interest on the proceeds of the sale.

### **Assignment #1 Due Monday, August 9, 2010:**

1. Complete the Assignment #1 Spreadsheet.
  - The sum of your positions (including money market) and commissions must equal your initial \$100,000.
  - Include the value of the Standard & Poor's 500 Index (S&P 500, ticker symbol ^GSPC) at the close for Friday, **August 6, 2010**.
2. For any dividend paying stock or coupon paying bond, project the date of the next dividend or coupon payment. You can either look at the history of dividend payments or go to the company website and look for this information in the Investor Relations area. Include this information in your report.

### **Assignment #2: Due Friday, August 20, 2010.**

You are required to liquidate your portfolio at the end of the day on **Wednesday, August 18, 2010**. Sell all securities at the closing price on August 18. Be sure to include all commissions.

1. Please compute or include the following in your report:
  - Include any relevant transaction history with commissions for any and all trades following the start date and preceding this terminal date.
  - Determine your ending security values.
  - Determine your ending portfolio value.
  - Calculate your investment portfolio return and annualize this rate of return.
  - Provide the August 18, 2010 closing value for the S&P500 index. Calculate the return to this index.
2. Answer the following:
  - How did your portfolio perform relative to the S&P 500?
  - Now that it is nearing the end of the class term, in hindsight, what if anything would you have done differently when investing the \$100,000?

### ***Helpful Resources***

*The Wall Street Journal*

*Barron's*

*Moody's Bond Books*

Business pages of local or national newspapers

[www.Fidelity.com](http://www.Fidelity.com)

[www.schwab.com](http://www.schwab.com)

[www.waterhouse.com](http://www.waterhouse.com)

[www.Morningstar.com](http://www.Morningstar.com)

[www.moneycentral.com](http://www.moneycentral.com)

[finance.yahoo.com](http://finance.yahoo.com)

[cxa.marketwatch.com/finra/MarketData/Default.aspx](http://cxa.marketwatch.com/finra/MarketData/Default.aspx)