

FINANCE 325: THE STOCK MARKET CASE

This case is due on December 7th in class. No late cases will be accepted. The case will be worth 10% of your grade in this course. The work on this case must be done in groups of 5-6 students. If a majority of the group's members feel that a member of the group did not contribute enough effort to the project, that majority can send me a signed note that assigns any percent between 0 and 100% of the points to that group member. Finally, I strongly recommend that you use a spreadsheet program like Excel to help in your analysis.

The assignment for each group is to pick a portfolio of **4 stocks** (only stocks traded on a U.S. exchange are eligible. Bonds, warrants, other derivative securities and commodities are ineligible. Mutual funds, open or closed-end, and SPDRs, or similar securities are ineligible) in which to invest a total of \$100,000. These stocks should be stocks that your group believes are going to earn the largest returns. You may not invest more than \$40,000 in any one stock, and you must invest at least \$10,000 in each stock. You may use any source of information you wish in order to choose your portfolio. For example, you can call a broker, you can ask your parents or friends, or play a hunch. I also encourage you to explore the many useful investing web sites, some of which can be reached through links on the course web page.

On Thursday, September 2nd, each group must turn in one page (typed) that lists the stocks in your portfolio (name and ticker symbol), how much you plan to invest in each, a brief reason for choosing them and the members of your group. When you turn in this sheet, you will not yet know the prices at which you will be buying. You will "buy" the stocks at the prices at the close of trading on **September 2nd**. Note that these are the prices listed in the newspaper on September 3rd or on various financial websites *after 3pm* on September 2nd. When you calculate the number of shares you can buy at that closing price, round down to the nearest whole share. You can get the prices from the WSJ on September 3 or from <http://www.pcquote.com> about 60 minutes after close of trading on September 2. In a separate account, each group will make three additional \$100,000 investments each in the Vanguard Index 500 mutual fund (Ticker: VFINX), the Nasdaq 100 (Ticker: QQQQ), and the Vanguard Global Equity Fund (VHGEX). **Throughout the class your group must record the prices of your stocks and the 3 additional investments each week (you must get each Thursday's closing price).**

Before Monday, September 6th, one group member must go to the class website (<http://www.cb.wsu.edu/~nwalcott/finance325>) and enter all of the group's information there.

Every Friday (starting September 10th), your team must submit your total portfolio value (as of that Thursday) to me through the class website. I will then post the "class standings" on Tuesday. Failure to regularly submit weekly valuations will result in loss of points on the assignment. I only want the total portfolio value of your portfolio... not the values of your individual investments or of the index portfolios.

You may make one trade total (not one per stock) during the course of the assignment. In order to make a trade, you must email me with the stock you are selling and how many shares you are selling, the stock you are buying and how much of the proceeds you are investing in the new stock. You will get the prices at the close of trading following your email. Thus, if you email me at 2 p.m. PST, you will get the prices at the close of the following trading day.

On Tuesday, December 7, 2010 each group is to turn in a two page typed summary of the performance of the 4 investment portfolios (your group's portfolio of 4 stocks, the Vanguard Index 500, the Nasdaq 100, and the Vanguard Global Equity Fund). You will measure performance in terms of returns and risk. These are terms we will talk about later in the class. Creative and well-written summaries will be rewarded with more points than an otherwise similar case. You may attach supporting materials and analysis to the two page summary. Your grade will **NOT** depend on how much money you made or lost. **Thursday, November 25, 2010** is the liquidation date for your portfolio. (i.e. the last day of collecting price information and the date on which closing sale prices are determined for each of the stocks in your portfolio.) The course web page will have an outline to help you figure out what to put in your write-up.

There are several objectives for this case. I want everyone to develop a basic familiarity with information about the stock market and what we mean when we say return and standard deviation of returns. In lectures we will discuss the lessons of market efficiency and diversification. These discussions have a bigger impact when we also conduct our own experiment.