

KING FAHD UNIVERSITY OF PETROLEUM & MINERALS
College of Industrial Management
Department of Finance & Economics

Security Analysis and Portfolio Management
FIN 421
First (Fall) Semester (Term 081)

Portfolio Project Guidelines

OBJECTIVES:

- Enhance your understanding of how financial markets work in the real world.
- Apply the concepts you have learned and are learning in this course to form and manage a portfolio of securities.
- Explore various sources of financial information including finance related web sites
- Track the performance of the selected portfolio and the stock market over time.
- Observe the effects of diversification.
- Test your short-term money management skills.
- Work as a team to make investment decisions and produce a comprehensive report describing the portfolio management process and results.

INVESTMENT GROUND RULES:

- This project is a group project with initial funding of USD 1,000,000 (Paper Money)
- Each group will use (mainly) the Stock-Trak Portfolio Simulation program (www.stocktrak.com) to manage and track the investment portfolio. The Stock-Trak acts like a discount broker and provides trading environment very similar to the real world. You will be charged commission for each trade. Total number of transactions is limited to 200 for the simulation period. Each team can invest in any NYSE, Nasdaq-AMEX stock, a series of government and corporate bonds, a selection of over 2000 mutual funds and certain stocks trading on stock exchanges around the world, including London, Paris, Frankfurt, Mexico City and Tokyo. To manage your risk exposures, your investment team can also invest in various options and futures contracts. Trades can be submitted by phone (1-800-786-TRAK), by fax (678-475-0645), email stocktrak@stocktrak.com and via their web page. Students will receive bi-weekly statements showing account activity, value and performance, but the web page has access by account number and password to review account activity, class rank as well as background resources for researching stocks, with price quotes and charts. Investment teams can buy on margin and sell securities short.
- The final portfolio must contain securities from major asset classes and sufficient an number for diversification to work. Students are free to allocate funds between asset classes based on their capital market expectations. However, the justification and economic rationale for the asset allocation and selected securities should be provided in the report. All official rules of the Stock-Trak are applicable.
- I have already applied for 5 separate accounts (one for each team) and I will send you the registration package with all information soon. For now try to visit the website and get familiar with it. You may also use the demo account

•The starting date for the project is November 3, 2008 (Monday). The closing date of the portfolio is January 16, 2009 (Friday). The written report will be due on January 20, 2009 and presentation on January 27, 2009.

MAJOR REQUIREMENTS:

At the end of the semester, each team will prepare a final performance report that (1) tracks the week-to-week performance of their portfolio, (2) analyzes the macroeconomic, financial market and stock-specific news events that may have affected the risk and return performance of their portfolios, and (3) evaluates statistically their relative and absolute performance using various tools and techniques.

Report: Use of a spreadsheet program such as Excel is highly recommended. Among other things, report should contain:

1. For each security,
 - * price level and change (performance)
 - * a measure of historical return. I suggest 5 years.
 - * a measure of the security's risk , the standard deviation of returns.

I suggest 5 years of monthly data. You can obtain data from the Microsoft Investor site, <http://investor.msn.com/research/welcome.asp> (use "charts" to download data) or from Yahoo at <http://quote.yahoo.com/>

- * the betas of each security

.2 For the whole portfolio, your goal is risk analysis and performance analysis:

- * Run portfolio optimization technique for your initial asset allocation. You may also estimate the degree of diversification of your portfolio, using the tools of portfolio diversification. One way is by registering at riskgrades.com and plugging in your current portfolio as well as checking the effect of changing the weights. You also can obtain sector performance results from the various sector indexes at bigcharts.com

- * Find the portfolio beta
- * Measure the portfolio's excess return: the difference between the actual and the expected.
- * Measure performance relative to the benchmark portfolio
- * Use the Sharpe, Treynor and Jensen measures. You'll need the beta, average return and standard deviation of your portfolio and of the benchmark.
- * Conduct a performance attribution analysis

- .1 Contribution of asset allocation to performance
- .2 Contribution of stock selection and bond selection to performance

•Every two weeks your team will be required to show tier performance and give reasons of good and bad performances.

•During the semester we will learn new thing about portfolio management and I will ask you to apply them on your portfolio .

Online Investment Help

The Financial Times

Bloomberg

Reuters

<http://www.bondsonline.com/>

<http://www.morningstar.com/>

<http://www.fool.com/>

<http://finance.google.com/finance>

STOCK –TRAK

www.stocktrak.com

Please follow these instructions:

1. Your group account number is:

H54201 for Warren Buffet (B)
H54202 for Peter Lynch (L)
H54203 for Benjamin Graham (G)
H54204 for John Neff (N)
H54205 for John Templeton (T)

2. go to our web page at

<http://www.stocktrak.com/tradingrules.php> and print out the registration materials/trading rules from our web page.

Following the "Read Rules" link in the left hand column of the home page directs them to the same link.

3. After having printed out the trading rules, please register your assigned account number at the "Open Account" link on STOCK-TRAK home page.

On this page the students will be asked for their STOCK-TRAK account number, and they will select their passwords and provide their name. The students will show \$0.00 due as the students aren't paying for the accounts individually.

4. According to your sign up sheet, your accounts will be activated on Nov 3rd with \$1,000,000

If you have any questions please send an e-mail to help-desk@stocktrak.com.