

## NMSU STOCK MARKET GAME

### PORTFOLIO COMPETITION RULES – Fall 2009

In order to promote the use of portfolios that use stocks, mutual funds, and bonds to build diversified portfolios suitable for long-run investing, the following rules are used to govern the Portfolio Competition in the NMSU Stock Market Game. The Portfolio Competition rules are in addition to the national rules that can be found on the SMG web site and in the Teacher Support Center.

#### ➤ DETERMINING ELIGIBILITY FOR AWARDS:

- **Deadline for initial trade and minimum investment.**
  - Teams must have made their initial investments by the end of **Week 5, Friday, November 6, 2009.**
  - In addition, teams must have invested at least \$50,000 in either long or short positions by the end of **Week 5.** This rule is intended to force teams to have a substantial portion of their equity invested in risky assets during most of the game period. Before declaring winners at the end of the game, teams' Account Summary pages will be checked to verify compliance as of the end of week 5.
- **Maximum and minimum risk levels.**
  - To be eligible for awards, the risk level of the portfolio must be **no higher** than that of the S&P 500 total returns index and **no lower than** the Lehman Brothers Aggregate Bond total returns index. Risk will be measured as the standard deviation of daily returns over the calendar time period of the game. The total returns indexes are used because they include the impact of dividends and interest.
  - This rule is designed specifically to draw students' attention to the riskiness of their portfolios and to provide them an incentive to control risk. If risk is too high, students may panic and sell when the stock market, and their portfolio, hits a temporary low. If risk is too low, students may not be able to earn a return high enough over the long-run to satisfy their long-term investing goals.

#### ➤ DETERMINING WINNING PORTFOLIOS

- There are two categories in which winning portfolios are determined.
    - **Portfolio Equity Value Category:** All eligible portfolios in each region will be ranked by the dollar value of their portfolio equity on the last day of the game. The eligible portfolio with the highest equity value will be declared a winner.
    - **Portfolio Efficiency Category:** First, the percentage return from the initial \$100,000 is calculated. Then, the ratio Return/Standard Deviation is calculated and all eligible portfolios are ranked on this ratio. The eligible portfolio with the highest ratio will be declared a winner.
  - Please note it is possible for a team to win BOTH categories in its region.
  - Note also that it is possible that NO teams could be eligible for awards in their region (for example, all portfolios may fail to meet the specified risk levels as explained above). **In that case, no awards will be given out in that region.**
  - Because the Team Rankings on the SMG web site only show returns and not risk, rankings for the NMSU Stock Market Game Portfolio Competition will be posted on the NMSU Stock Market Game web site (<http://business.nmsu.edu/academics/smg/>)
- Please note that there is not a mandatory writing assignment in order to be eligible for awards in the Portfolio Competition. Instead, we encourage all teachers to use InvestWrite, the national SMG essay competition. See [www.investwrite.info](http://www.investwrite.info) for more details.

## HOW SHOULD TEAMS STRUCTURE THEIR PORTFOLIOS?

- Here is a quick guide to allocations that are likely to give teams enough diversification to qualify for awards.
  - Invest 40 – 60% (\$40,000 - \$60,000) of the portfolio in broadly diversified stock mutual funds or exchange-traded funds (ETFs). Visit the web sites of major mutual fund families, such as Vanguard ([www.vanguard.com](http://www.vanguard.com)), Fidelity ([www.fidelity.com](http://www.fidelity.com)), or T. Rowe Price ([www.troweprice.com](http://www.troweprice.com)), or the iShares web site ([www.ishares.com](http://www.ishares.com)) for a family of exchange-traded funds.
  - Invest 20 – 40% (\$20,000 – \$40,000) of the portfolio in bonds or bond mutual funds or bond exchange-traded funds. The major mutual fund families all have bond funds as does iShares. Alternatively, you can also invest in selected individual bonds that are on the SMG web site.
  - Invest 10 – 30% (\$10,000 - \$30,000) of the portfolio in individual stocks. If you have diversified using mutual funds and/or ETFs, including individual bonds or bond funds, then you can allocate some of your portfolio to the riskiest securities, individual stocks. You should also plan to invest in at least 4 stocks to ensure some diversification, so plan your purchases carefully.
  - Do not use margin. Borrowing money to buy additional investments is called “leverage” and, while it can increase your returns, it can also magnify your losses. **This means that margin increases risk.**
- To learn about diversification and mutual funds, visit the Stock Market Game’s Teacher Support Center and review the lessons on Diversification, Mutual Funds, and Bonds. Follow these links:
  - In the Classroom → Lesson Sequence → Display a Complete Outline of All Lessons. Then, pick the lessons for your appropriate level.

## GENERAL RULES APPLYING TO ALL TEAMS. (Additional rules are listed on the SMG web site.)

- **ALL** student teams must be registered under the name of the advisor/teacher guiding them in the classroom.
- **MINIMUM PURCHASE RULE:** The initial purchase of any stock or mutual fund must be for a minimum of 100 shares. The impact of this rule is that if a team buys 100 shares of a high-priced stock (say, Google at \$500 per share), the portfolio risk is likely to be too undiversified and higher than the maximum for eligibility for awards.
- **TEAM ROSTER:** In order for student names to appear on the award plaques, we must receive a team roster from the winning teams. Please see the flier, Team Rosters, for more information.
- **DEADLINE FOR DELETING TEAMS:** Although the New Mexico Stock Market Game is provided to you at no cost, we still incur a processing fee for all registered teams, including those with no transactions. We will delete all teams with no activity by the Thursday of the 7<sup>th</sup> week, November 20, 2009. Therefore, we would greatly appreciate your notifying us right away if you register more teams than will be used.

If you have any questions about these rules, please contact Dr. Ken Martin, SMG Program Director at [kjmartin@nmsu.edu](mailto:kjmartin@nmsu.edu), or Yvonne Mendoza, SMG Coordinator (575) 646-3690 or [ymendoza@nmsu.edu](mailto:ymendoza@nmsu.edu).