

Econ 134 - Financial Economics

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The Investment Exercise – Part 1a

General Purpose: This assignment is intended to give you hands-on experience with financial market reports, while allowing you to participate in the sort of transactions that we will be studying in the remainder of the course.

Scenario: You have just inherited \$100,000 that you wish to invest in *U.S. common stocks* traded on the NYSE or the NASDAQ (only those regularly reported in the Wall Street Journal NASDAQ National Markets Issues table). You may also hold as much as you wish in cash, which for the purpose of this exercise is assumed to earn a 0% weekly return.

You are going to invest on Monday, September 29, in a portfolio of exactly 3 stocks. All transactions will take place at the closing prices of the previous Friday, September 26; these are quoted in Monday's Wall Street Journal and can also be found on many financial websites such as Yahoo's.

Assignment: You begin the exercise with \$100,000 in cash and no stocks. For each stock that you purchase provide the stock, ticker symbol, closing price, exact number of shares that you wish to buy at that price, and total investment in that stock. You should then also give the total invested and the residual amount held in cash.

Moreover, give a brief explanation of why you invested as you did.

How do you expect your portfolio to perform relative to the S&P 500?

Part 1a is due on Tuesday, September 30, in class; maximal score: 100 points.

Keeping Track: You will cash out your portfolio on November 24 and report on your overall investment performance. In the meantime, to keep track of the riskiness of your portfolio, you need to record on the sheet "Investment Exercise - Part 1b" the closing prices of each of your stocks on the Friday of each week, as well as the S&P 500, a broad market index; these prices will be available the following Monday. Make sure to enter your initial portfolio allocation in the first row of table 1.

Grading: Grades for the assignment will be based only on participation and accuracy. Grades will *not* be affected by your portfolio choices or your investment performance.

Background Information:

Have you ever purchased a stock before?

The Investment Exercise - Part 1b

Use this sheet to keep a weekly record of the performance of your portfolio. You will cash in on Monday, November 24, at the closing prices of Friday, November 21. You will not be able to buy or sell stocks in the meantime. If you know Excel or another spreadsheet program, it will save you a substantial amount of time to enter the data and later do the needed calculations in that program.

The following two tables will be used in the second part of the investment exercise.

1. For each of your stocks and for the S&P 500, record the weekly closing stock price respectively index value. Similarly, compute for each week the value of your portfolio of all stocks “S”, as well as that of your overall portfolio (“T” for “total”).

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Date	Stock 1	Stock 2	Stock 3	Portfolio S	Cash	Portfolio T	S&P 500
9-26						\$ 100,000	
10-3							
10-10							
10-17							
10-24							
10-31							
11-7							
11-14							
11-21							

2. Compute the **weekly holding-period return** in % for each stock, for the S&P 500, and for the portfolios S and T; for simplicity, you may ignore dividends received.

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Week ending	Stock 1	Stock 2	Stock 3	Portfolio S	Portfolio T	S&P 500
10-3						
10-10						
10-17						
10-24						
10-31						
11-7						
11-14						
11-21						