Efficient Markets Hypothesis
Stock Market Anomalies
UISES (University of Illinois Securities Exchange Simulation)

This exercise will allow you to explore the suggestion that certain investment strategies will produce abnormal investment returns. You will be graded on your justification of the anomaly that you choose, the execution of implementing and presenting it and the investment performance it produces. Please use the information below as an outline in this exercise.

1) Form your group. You should have a group of 4 or 5. Complete the UISES registration form and exchange contact information with your group members. Set your first meeting date, time and place.

2) Choose an anomaly. Chapter 9 in the text covers the Efficient Market Hypothesis and discusses market anomalies. Additionally, there are a number of web sites which discuss anomalies. Try http://www.investorhome.com/anomaly.htm for a nice presentation of anomalies and related research literature.

3) Write a short (1/2 page) summary of the anomaly and the literature suggesting how and why this anomaly works.

4) Choose a group of 8-10 stocks which fit the anomaly. You can find stock screens on the web at the following sites:

   http://www.stockscreener.com
   http://www.iqc.com/scan/
   http://www.morningstar.net/nd/ndNSAPI.nd/Research/StockInterim
   http://www.stockselector.com/screen.htm

   and many others.

5) For each of the stocks you chose explain what make them fit your anomaly. You can find many financial and technical measures on the following: http://www.dbc.com (Get the “market guide” report and print it on each stock) or http://quote.yahoo.com (Get the “profile” after you enter the stock symbol and print it on each stock you choose). Make sure that you get the published Beta on each security.

6) Your group should designate one individual as the responsible trader to place the trades in your portfolio.

7) You will set up your portfolio on UISES once each group has established an account and as completely as possible, fully invest the hypothetical $1 million in the portfolio of 8-10 stocks that you choose. The weightings of the individual securities in the portfolio are your decision. Be aware of commissions on purchases, (.25% of value on trades above $100,000 and .5% of value on trades below $100,000)
8) You should set up a spreadsheet to monitor the account and form the backbone of the information you will use to do the final results write-up. Information on the spreadsheet should include: Company name, stock symbol, Beta, cost basis (book value), commission, weight of holding in entire portfolio (weight 1), weight of holding in stock component of your entire portfolio (weight 2), and any financial criteria that you used in the application of the anomaly (P/E ratio, Book/Market value, etc.) You will also want to track dividends and market value of each holding so that returns can be calculated. **You will track the market value of each security, the portfolio and “the market” at the close each Friday during the semester.**

9) Remember that UISES executes orders after markets close (3 PM Central Standard time) each trading day at the closing price of the securities. I recommend that you use "market orders" to assemble your portfolio and all place the trades on the day I announce as the first trading day available to you. Once the portfolios are assembled, there should not be any further need to be trading the account.

10) **Most important of all, don’t get too worked up if some of the project is less than clear at this stage of things. The important points at this time are to:**

   a) Choose an anomaly,
   b) Screen for stocks which fit the anomaly,
   c) Select 8-10 issues to test the anomaly,
   d) Determine how much of each security to trade
   e) Make the trades when told to do so and finally,
   f) HAVE SOME FUN!