Student Investment Fund Implementation

From MOU to Career Action Plan Development. Also: transitioning from 2xFIN199/1xMBA299A to 1xFIN196A to 1xFIN160 official course offering.
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How the Student Investment Fund is delivered at Sacramento State University.

University Enterprises Incorporated (UEI)
- Owner of account.
- Account maintained by Fidelity.
- Account administered by Sand Hill.
- Trades sent by approved account signatory (Craig Barth of UEI) – MOU paragraph III.a.

Memorandum of Understanding (MOU) #MA180441: [PDF]

College of Business
- Offers the course.
  - Fall 2020: FIN196A, MBA299A.
  - Spring 2021: FIN196A, MBA299A.
  - Fall 2021 and thereafter: FIN160, MBA299A.
- General course content (curriculum) determined by Finance Department and approved by College and University.
- Receives management fee from UEI.
- Determines usage of management fee.

Professor of Record
- Implements MOU within context of course as College of Business designee. This includes:
  - Course syllabus construction.
  - Security selection process.
  - Trade approval and transmission to UEI.
  - Approval of management fee use.
  - General oversight: “with faculty oversight” MOU paragraph I.
- Optional: Serves as faculty advisor for SIF Student Club at the instructor’s discretion.
MOU basics

Purpose (MOU page 1, verbatim)
1. Analyze and manage an investment portfolio.
2. Research and recommend portfolio holdings.
3. Analyze economic conditions.
4. Maintain accounts and records necessary for an investment portfolio.
5. Perform these functions in the context of a unique educational opportunity that will help students better understand financial markets.

Additional MOU info
- **It’s not our money.** “The account and all related earnings are the property of UEI.” (p. 1)
- **Fees paid to CBA.** “The investment management fee will be calculated and paid to the CBA” (p. 1)
MOU’s Prospectus highlights

• **Sector neutral.** “Our investment in each sector will correspond directly with each sector’s relative weight in the S&P 500.” (p. 5)

• **Active and passive (with constraints).** “...both active and passive strategies when selecting investments. The overall objective is to maximize rates of return within reasonable and prudent levels of risk through extensive diversification.”

• **S&P500 is the benchmark.** “The funds’ benchmark will be the S&P500.” (p. 5)

• **Return target.** “The return target is to provide a total return in access [sic] of 0.5% above the S&P 500.” (p. 5)

• **Risk target.** “The risk is to stay in line with that of the S&P500 when measured by standard deviation formula.” (p. 6)

• **ETF-focused.** “Each sector’s investment will be primarily held in the ETF as a way to mitigate risk.” (p. 5)

• **Other investments allowed (with constraints).** See “Fixed Income Investments,” “Other Investments,” and “Prohibited Transactions.” (p. 5-6)
Some Dr. Moore interpretations

• Be humble.
  • **We are not rock star traders.** “In the financial and hedge funds world, a lot of people are attracted to the image of a young guy in a Ferrari. But you cannot be at Bridgewater and working for that sort of reward. You have to like the notion of intellectually working yourself through questions and being challenged to get to the right answer.” [1]
  • **We do not know the future.** You can not “foresee asset prices and market movements. ‘No one can, and when people think they can, you should doubt them,’ the CIO says. ‘It’s an element of humility to acknowledge we’re not smart enough to predict markets, so as much balance you can tolerate is better.’” [2]
  • **You won’t be here long enough for fanciful claims.** “To be 90% confident that a manager with a 0.35 information ratio will add value, one has to wait 15 years.” [3]
  • **Beating the market is not easy.** “he who is continually thinking things easy is sure to find them difficult. Therefore the sage sees difficulty even in what seems easy, and so never has any difficulties.” –Tao Te Ching 63

• Patience is a virtue
  • **We don’t rush to trade.** “Be patient and move slowly to avoid mistakes.” —Speaker at one of the conferences (FAME or GAME, I forget)
  • **We emphasize understanding.** Dalio’s “team spent five years researching equities and testing strategies before making its first investment.” [1]
  • **We are not day (or week, or month, or even quarter) traders.** We were scolded in the past, by the owner of the account, for buying and selling in a single position (INTC) multiple times within a couple months.

Evolution of SIF course offering

**Spring 2019 and before**
- 2 semester commitment.
- FIN199
- 1 or 2 credits in each semester.
- Pre-req FIN101 B or better + **instructor permission via interview.**
- MBA students: MBA299A
- 2 semesters.
- 0 then 3 credits.
- Instructor’s discretion.

**Fall 2019**
- New SIF Students: FIN199
- 2 credits.
- Pre-req FIN101 B or better.
- Returning SIF Students: FIN199
- 2 credits.
- MBA students: MBA299A
- 2 semesters
- 0 then 3 credits
- Instructor’s discretion.

**Spring 2020**
- New SIF Students: FIN199
- 2 credits.
- Pre-req FIN101 B or better.
- Returning SIF Students: FIN199
- 2 credits.
- MBA students: MBA299A
- 2 semesters
- 0 then 3 credits
- Instructor’s discretion.

**Fall 2020**
- New SIF students: FIN196A.
- 3 credits.
- Pre-req FIN135 B- or better.
- Returning SIF students: Also take FIN196A**.
- Students who took FIN199 for the first time in Spring 2020.
- Can not take more than two SIF courses.
- Pre-requisites waived for returning Spring 2020 SIF Students.
- MBA students: MBA299A
- 1 semester only.
- 3 credits.
- Instructor’s discretion.

**Spring 2021**
- **FIN196A**
- 3 credits.
- Pre-req FIN135 B- or better.
- MBA students: MBA299A
- 1 semester only.
- 3 credits.
- Instructor’s discretion.

**Fall 2021**
- **FIN160**
- 3 credits.
- Pre-req FIN135 B- and business major.
- Register as you would other courses
- MBA students: MBA299A
- 1 semester only.
- 3 credits.
- Instructor’s discretion.

*HOW TO REGISTER IF YOU MEET PRE-REQUISITES:* send an email to Maryam Sabet (sac57090@csus.edu), cc me (djmphd@csus.edu), cc Maria Lindstrom (mariar@csus.edu), and include the following: 1. Your Name, 2. Your Student ID#, 3. Your grade in FIN135, 4. State you would like to enroll in FIN196A Spring 2021.
Evolution of SIF security selection process

Fall 2010 - Fall 2011
- Perform DCF on whatever stock you feel like

Fall 2011 - 1st half of Fall 2018
- Quantitative fundamental and technical analysis: MOSAIC -> RIVER

Fall 2011 - 2nd half of Fall 2018
- ?

Spring 2019
- Quantitative fundamental and technical analysis: RIVER

Fall 2019 - Spring 2020
- DCF, fundamental, economic, technical analysis on whatever you like

Fall 2020
- Generate Universe of stocks to feed optimizer
  - Current holdings
  - Top RIVER stocks
  - Benchmark ETF
  - Portfolio Optimizer selects optimum combination from Universe compliant with prospectus

Spring 2021
- Generate Universe of stocks to feed optimizer
  - Current holdings
  - Top RIVER stocks
  - Benchmark ETF
  - Portfolio Optimizer selects optimum combination from Universe compliant with prospectus

In addition to his classroom schedule, Moore is a faculty advisor to the Student Investment Fund, a $250,000 portfolio managed by students at the direction of faculty. “I think we should put more structure into the decisions to buy and sell stock by creating screening criteria,” he advised recently.
How students can participate in SIF

**Semester before enrolling in FIN196A/160, MBA299**
- Observer in course
- Up to professor of record.
- Dr. Moore welcomes your presence and assistance provided you agree with his understanding and implementation of the vision.
- Other professors: ?
- Send the professor of record (in the case of Spring 2021, Dr. Moore djmphd@csus.edu) indicating your desire to participate as an observer.

**In-semester (FIN196A/160, MBA299) Registered students**
- Security Analyst
  - Up to professor of record.
  - For Dr. Moore, all who register and complete the course may use this title. However, Dr. Moore is more concerned about actions than titles.
- Functional areas beyond security analysis
  - Accounting
  - MOU/prospectus Compliance
  - Risk & Performance
  - MIS & Marketing
- Students enrolled in FIN196A/MBA299 will rotate through all four tasks. This mirrors rotational programs many employers have for new hires.

**Semester After enrolling in FIN196A/160, MBA299**
- SIF Consultant
  - Help students with understanding the process and tools.
  - Help professor develop and implement process refinements.
  - Participation up to professor of record.
  - Dr. Moore welcomes your presence and assistance provided you agree with his understanding and implementation of the vision.
- Other professors: ?
Fund management functional areas in addition to security analysis and portfolio formation

**Accounting**
- Translate monthly account statements into PORT holdings and transactions files.
- Deliver PORT files to Risk & Performance for Fact Sheet update.
- Historical trade entry/exit price info.

**MOU Compliance**
- Works with Accounting and Risk & Performance to ensure compliance with sector weightings, return targets, and risk targets.

**Risk & Performance**
- Update Bloomberg-enabled Excel Fund Fact Sheet with data from Accounting.
- Define performance “alerts” and facilitate communication with MIS & Marketing.
- Take accounting trade data and report historical risk-adjusted performance.

**MIS & Marketing**
- Develop process to automate translation monthly excel account statements into Bloomberg PORT file updates and Fund Fact Sheet updates.
- Maintain website and social media.
General semester flow

• First 1/3rd of semester
  • Dr. Moore presents RIVER analysis process and how it connects to the Portfolio Optimization step.
  • Financial, economic, portfolio updates.

• Second 1/3rd of semester
  • Students present portions of RIVER analysis applied to their sector.
  • Financial, economic, portfolio updates.

• Final 1/3rd of semester
  • Dr. Moore presents Portfolio optimization usage
  • Students populate central “Universe” list and run Portfolio Optimizer
  • Review optimizer output and place trades if warranted.
  • Financial, economic, portfolio updates.
  • Career action plan development.