

A Futures Market for Computer Industry Stocks

FIN 3000 Project

The work which we have done so far in this course on financial statement and ratio analysis has focused on the computer industry. For the next month we will follow the computer industry closely and track how news about the industry affects expectations about stock returns. The vehicle for this study will be a futures market which is based on which of three stocks, Apple, IBM and Microsoft, or the S&P500 has the greatest rate of return from 10/20 - 11/17. This electronic market is run through the University of Iowa and trading is for real money. This means, that for every share of the "winning" futures contract which you hold when the market closes on the 17th, you will earn \$1. Shares of the losing contract earn nothing. More details on trading in the market are below.

The group project is worth 10% of your grade for the course. You will be divided into groups of 3-4 students for this project. There are two parts to the project which are worth 30% and 70%, respectively:

Preliminary Analysis and Login: Due 10/19

Final Report: Due 11/30

- 1. Preliminary Analysis:** The market opens on 10/20. Before it does, you will be required to write a short analysis of which of the stocks or the S&P500 you expect will have the greatest rate of return. Your analysis must be based on material from FIN3000 - this means that you will get credit for applying financial statement analysis, valuation, and other topics from the course to the problem. Discussions of technical analysis or other methods of valuing stocks which are not part of FIN3000 will not be given credit for this assignment. This analysis can be no more than 3 pages long.

You are also required to establish a trading account for the market before it opens. This means that you will have to fill out the application form and return it with a check for at least \$5 by 10/12 so that there is time to open your account before the market opens on the 20th.

- 2. Final report:** The market closes on 11/17. Once it does you will need to go back over the trade prices **in the futures market** and analyze what factors contributed to asset prices changing the way they did. There is a five page limit (not counting figures) for this part of your project. There are two parts to the analysis:
 - a) The first part is a graph of daily asset prices over the 4 week market period. You will be required to write a legend for your graph which identifies "events" which occurred that caused changes in expectations about the future of the company and thus, futures contract prices. You will need to cite the Wall Street Journal or another business or news publication to identify these events. You are especially charged with identifying "what changed" if the price of a particular asset changes market changes suddenly on any day during the trading month.

Every member of the group must be responsible for 1 of the 4 assets. You must tell me which group member followed which asset. If your group has only 3 members, each should do one of the stocks, and you should jointly do the S&P500. When you turn in your project, an attempt to identify the level of individual effort from the quality of the analysis of each asset will be made.

- b) The second part of the final project is a discussion of what happened in the market during the 4 week trading period. Much of this can be based on the attached graph and legend. You must also go back to your preliminary analysis and critically analyze it: I want to know where you still agree with your original analysis and what you think has changed. Finally, you should comment on what you expect to happen to the returns on these stocks in the coming months.

Grading: Grades will be based on the following criteria:

- 1) Presentation. Papers must be prepared on a word processor, double spaced in 10 or 12 point type face. All papers are expected to be completely free of spelling errors - use a spell checker. You also need to make certain that there are no grammatical errors - everyone in the group should carefully proofread the final copy before you turn it in.

You are expected to give citations for any reference materials (except the textbook) that you use. References can follow any standard format. DO NOT quote experts - I am interested in your analysis, not the writer from the WSJ.

Your writing should have a formal tone and be written in 3rd person. You may not "feel" anywhere in the paper and you may only "think" in the first and last paragraph. Remember to back up any assertions that you make with facts or events from the market.

- 2) Content. You will be graded on the depth of analysis and originality subject to the restriction that you must limit your analysis to material discussed in FIN3000.

Guidelines: All groups will work independently on this project. You may collaborate with members of your group, but may not discuss any aspect of this project with other groups. Sharing information or ideas between groups will be considered cheating and discovered violators will be subject to university sanctions.