Many of the universities that offer a student-managed portfolio program do so through a formal full semester course which requires an academic presentation of the principles and procedures that a fiduciary professional would be expected to employ. Many of you may not become professional money managers, so the primary objective of this program is to familiarize you with the stock market’s behavior. This has the advantage of preparing you for your own personal investment program as well as providing a necessary background to the professional training you would receive in other coursework as well as on-the-job if you are working in a professional investment capacity.

The objective is to apply, to the stock market, the principles you have learned in the required finance class and beyond. Fundamental analysis is the study of the earnings potential of the company and the associated risk. Technical analysis is the study of the stock market conditions affecting the price of the stock. Both forms of analysis are to be applied in making our decisions. Technical analysis may receive some greater emphasis because there is very little coverage of this analysis in other finance courses.

From other coursework we know that stock prices are dependent upon future expected dividends and the investors’ required rate of return. In the long run the dividends are necessarily supported by the earnings of the company. The earnings are the net result of revenues and expenses. In a well managed company the expenses are limited appropriately to the sales revenues their products or services are able to generate, thus providing an appropriate profit. This means that the variables in question are the level of sales that can be generated and whether or not the company is well managed.

The investors’ required rate of return is comprised of a risk-free real rate of return, an inflation premium, and a risk premium. The first two are longer term systematic variables that apply to the stock market in general, and the risk premium is the one that has more short-term volatility and has a significant relationship to the specific company. The risk to the shareholders is the riskiness of the earnings, which is the combination of sales risk, operating leverage, and financial leverage. So for the fundamental analysis side of the problem, we are left considering the future sales potential, whether the company is well managed, and the riskiness of the earnings.

Technical analysis addresses the question of how other investors’ expectations are affecting the price of the stock. Is the price in a trend (up or down) or a consolidation (sideways movement), and is there a pending support and/or resistance level? In addition, it is useful to be aware of overall market movement in those same terms.

This brief statement is designed to set a foundation for our decision making approach. Beyond this foundation, the course is designed to address any investment style that the students may wish to pursue both individually or as a group. The portfolio is not limited to any particular investment style such as growth, income, or value, but is open to inclusion of stocks fitting any style or investment horizon with the clear understanding of the nature of each stock. Portfolio diversification is not an explicit requirement, but the implications for diversification will be considered with each stock decision.