

ifs Student Investor Challenge Student Guide 2010/11

Welcome to the **ifs** Student Investor Challenge 2010, but, more importantly, welcome to the fascinating world of stock market investment. You are about to embark on an exciting journey where you and your team will learn about the ups and downs of stock market investing. By taking part in this competition you will be competing against thousands of teams from across the UK to win some sensational prizes. These include the top prize of an all-expenses-paid trip to New York, with £200 spending money for each team member, together with £2,000 for your school or college.

How do I register?

The competition is for groups of four students, who must be aged between 14 and 19 on 31 July 2011. To register your team, you need to give your teacher the name of the team and the four team members, together with their dates of birth and email addresses. You must also give your teacher a team password (at least seven characters long) which will allow you to log on to the competition website (www.studentinvestor.org). As soon as your teacher has registered your team, you can start to trade.

What does the competition involve?

The aim of the competition is for you to make as much money as you can before the competition finishes on 4 February 2011 by increasing the value of your portfolio (the collection of shares that you own). At the start of the competition you have £100,000 of fantasy cash and you use this money to buy and sell the shares listed on the competition website.

The competition is designed to be as close to real life as possible, but there are some rules your team needs to follow to be eligible to win prizes:

- Your portfolio must consist of the shares of **ten** different companies.
- At least **six** of the ten shares chosen must come from the list of FTSE 100 companies.
- To make the game as realistic as possible you will be charged **stamp duty** (tax) and a **stockbroker's commission** every time you purchase a share.
- When you sell shares you will be charged a stockbroker's commission, but no stamp duty (you only pay tax when you buy shares).
- You can only hold £15,000 of cash. All the rest of your portfolio must be held in the form of shares.
- You can hold shares in an **investment trust** if you wish, although each investment trust will charge you a **management fee**, which varies from trust to trust.

- All stock market data is live data provided by Bloomberg, but is subject to a 15-minute delay.
- You can only trade each company's shares once during a 24-hour period.
- The **minimum investment** in the shares of a company is **£1,000**.
- **Dividends** will only be paid if you own the share on the day it went 'ex-dividend'. In the real world this is the date on which shareholders must own the share in order to receive the next dividend payment. If you want to receive dividends, you will have to research these dates carefully.
- You may not hold more than 0.01% of the total shares in any one company.
- Teams that start trading later than 2 November will have the value of their initial £100,000 linked to the performance of the FTSE 100 index (this prevents teams who start later having an unfair advantage if share prices fall).
- Trades that take place whilst the stock exchange is closed are settled at the opening price of that share when the stock exchange reopens.

How to pick your shares

The key to success is to outsmart the other teams. If you pick shares using guesswork your team is unlikely to be successful, unless you are really, really lucky. To gain an advantage over the competition you need information. You can gather this from the Student Investor website and by searching newspapers and company websites.

The competition website provides basic information on each of the shares that can be traded. You can access this information by entering the 'trading room' and clicking on the desk next to the back wall. By clicking on the name of each company you will find details of the company's current valuations, its last reported results, its dividends and earnings, analysts' recommendations. You will also see graphs of how the share has performed over the last month compared with the FTSE 100 index.

However, this information is available to all the other teams as well, so perhaps the secret to success is to think smarter and search for extra information from elsewhere. For instance, in 1995 the publishing company Bloomsbury agreed to publish the first Harry Potter book. It is likely that you as a young child were aware of the success of the books before any stock market analysts were. This was a clear opportunity to buy shares in Bloomsbury in anticipation of a large increase in profits.

You can gather information to follow one, or a combination of, the following strategies.

- **Is the company undervalued?**

Find out the price/earnings or p/e ratio of the company you are interested in.

The p/e ratio is the share price of the company divided by the profits made per share (sometimes called earnings per share).

If the p/e ratio is high, it could mean that investors are very confident about the future profitability of the company. A high p/e ratio means that the company's share price is

high compared to the profits the company has made so far. Equally, it could mean that the company is overvalued and the share price could drop in the future.

If a company has a low p/e ratio, do some research to try to find out the reason for investors' lack of confidence in the company. If you can't find an explanation, this might suggest that the company has been overlooked and the shares are cheap compared with the company's expected performance. It is likely that these shares will rise in value in the future.

For instance, Tesco currently has a p/e ratio of 13.7, whereas Morrisons has a p/e ratio of 15.6. This could suggest that Tesco is undervalued compared with Morrisons. On the other hand, it might suggest that investors expect that Tesco will not perform as well in the future. By backing up this information with news stories about Tesco, you will be in a better position to decide whether the p/e ratio points towards an undervaluation and the prospect of growth in the share price.

- **Company results**

Rather than wait for the company to announce its profits, it is better to look at what the company and its brokers forecast their profits to be. If profits exceed these forecasts, it is usual for share prices to go up. This can happen even if the company reports record profits – if profits are very high but the company had expected them to be higher still, investors may be disappointed and sell their shares. As a result, the share price will fall. You can usually find a company's profit forecast by searching on the company's website in the 'investor' or 'shareholders information' section.

- **Dividends**

Dividends are the part of the profits paid by the company to its shareholders. Dividends are paid twice a year (the interim dividend and final dividend), as long as you hold the share on the day it went 'ex-dividend'. The 'ex-dividend' date is the last day on which you can qualify for the next dividend payment. You can find the 'ex-dividend' dates in the 'financial calendar' on a company's website. The calendar is usually found in the 'investor' or 'shareholder' information section.

It is usual to examine the dividend by comparing it to the price of a share. For instance if a share is priced at £1 and it pays a dividend of 10p, it will have a dividend yield of 10% ($10p/100p \times 100 = 10\%$). If the share price drops, the yield will rise, making the shares even more attractive. Therefore, looking at dividend yields can be a clever way of gaining an advantage over the competition, since you will gain income from the share, boosting the value of your portfolio and the size of the yield reduces the likelihood of the share price falling.

- **Market trends**

In 2008, the credit crunch caused a housing market slump. At this time, investors lost confidence in companies that built houses since it was expected that these companies would make large losses. For example, the share price of the property company Barratt

Developments reached £12.80 during the housing boom but fell to just 34.75p in the slump. It has since recovered to a price above £2.50, a return of over 600% in just over a year! Sometimes going against the trend can generate handsome profits.

- **Analysts' recommendations**

Analysts are highly paid professionals who do in-depth research into the likely performance of shares by examining what is likely to happen to each company's profits in the future. When an analyst recommends that investors buy a particular company's shares (a 'buy' recommendation), the share price usually increases.

However, if you buy after the announcement of a 'buy' recommendation, the share price will already have risen to take account of this information. It is far better to research shares that large numbers of analysts rate as a 'sell', since there is potential for the rating to change to 'buy'. Only by purchasing a share *before* an analyst changes their rating can you take advantage of the hike in the share price.

One way to do this would be to list shares that a large number of analysts rate as a 'sell'. This information can be found by going to the trading room on the competition website and clicking on a company from the list. Scroll down until you find the 'what the analyst says' section. For instance, 57 per cent of analysts rate Royal Bank of Scotland as a 'sell'. If this were to change it is likely that the share price would rise. By researching newspaper stories on the company or by looking at bulletin boards such as www.iii.co.uk, you should be better informed if a change of rating is likely.

- **Using charts**

This can be something of a minefield, and teams in the past have bought shares simply because the share price of a company has fallen to an all-time low. If a share falls by 50%, it will have to increase by 100% to get back to its original price. This simple strategy of 'the share has gone down so it must go back up' is very high risk. If a share falls in value it is usually due to lack of confidence in the company's future prospects.

- **Risk**

Often the biggest gains are to be made by choosing shares from the ifs Small Cap 50 list. These are the smallest companies, and because of their size it is easier for them to increase their profits dramatically in a very short space of time. Domino's Pizza is an **ifs** Small Cap 50 company that has significantly increased its profits during the last year. With the UK economy in recession, more people are choosing to stay in and eat takeaways than go out to more expensive restaurants. This has boosted Domino's profits by 21 per cent with the company's share price rising by almost 75 per cent during the last year. It would be difficult for a company that is already large, such as Vodafone, to experience this kind of growth in such a short space of time. Small Cap companies offer the potential for large gains, but also for large losses if things go wrong.

Preparation for the regional finals

To qualify for the regional final you must own a valid portfolio on 4 February 2011. In each region, the twenty teams whose portfolio has risen by the most are invited to the regional final (but note that only one team is allowed to qualify from each school). This year we have also introduced a new way to qualify for the regional finales, via the wild card draw. Further information can be found at www.studentinvestor.org. The regional final consists of a 70-question multiple-choice quiz, with the winning team and the runners up qualifying for the national finals in London. In order to prepare for this quiz, keep up to date with business and finance stories in the press throughout the duration of the competition. This will give you a head start!

Preparation for the national finals

There are two elements to the national final. In the morning there is a 'business challenge', in which each team has to answer questions on a case study that is provided to them on the morning of the final. In the afternoon, each team has to give an eight-minute presentation on a topic that is provided to them in advance of the final. Judges will ask the teams questions about their presentation.

Prizes

The team that wins the national final will receive an all-expenses-paid trip to New York, together with a cash prize of £200 per team member. The winning school also receives £2,000. The second-placed team wins a cash prize of £150 per team member, with their school winning £1,500. The third-placed team wins £100 per team member with their school collecting a cheque for £1,000.

In addition to the prizes awarded at the national final, there is also a prize for 'online trader of the year', which is awarded to the team who has the highest portfolio value on 4 February 2011. There are also additional prizes of £100, which are awarded to the most improved team each month throughout the duration of the competition.