THE CENTER FOR ECONOMIC EDUCATION AT BLACK HILLS STATE UNIVERSITY, THE SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION (SIFMA) AND THE SOUTH DAKOTA COUNCIL ON ECONOMIC EDUCATION PRESENT:

The South Dakota Stock Market Game (SDSMG)

Team/Teacher log in page: http://www.stockmarketgame.org

Spring 2018 Trading Session: February 5 to April 20

Coordinator Newsletter # 2 at February 9, end of trading Week 1

Coordinator Comments

It’s been a crazy first week in the spring session of the SDSMG as a major stock market Correction was experienced. Last Thursday, the Dow Jones Industrial Average fell 10% relative to its 52 week and stocks fell hard. Volatility ramped up as dramatic price swings happened from the opening to the closing of trading. Although the markets recovered with a nice upswing on Friday, stocks were still down nearly 5% across the board, one of the worst trading weeks in years!

What is spooking the markets? Despite more than 80% of companies exceeding their earnings and revenue estimates for the fourth quarter, it appears that the combination of Inflation and rising Interest rates sparked massive selling as investors went on the defensive and bought bonds, primarily risk-free treasury debt as the 10 year Treasury Note rose to 2.86%.

Usually price swings like this happen during “earnings season” a six week period when companies report their financial results for the prior quarter. Please see the Class Discussion question below to understand how these reports correlate to a company’s stock price. Nvidia Corp (NVDA) reported great numbers on Friday and its stock price rose; Expedia Inc (EXPE) fell short of expectations and its shares fell sharply.

As trading began this past Monday and after some last minute registrations, we have 190 teams with 447 students from 22 schools participating in the following Divisions:

<table>
<thead>
<tr>
<th>Division</th>
<th>Teams</th>
<th>Students</th>
<th>Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>136</td>
<td>311</td>
<td>17</td>
</tr>
<tr>
<td>Middle School</td>
<td>39</td>
<td>121</td>
<td>4</td>
</tr>
<tr>
<td>College</td>
<td>15</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>190</td>
<td>447</td>
<td>22</td>
</tr>
</tbody>
</table>

SMG Teaching Tips:
Remind students that they can check to see if their trades were accepted by clicking on **Transaction Notes** under the **Trading** link on the team landing page. Students must understand that the 1 % trading commission paid on buying the shares are added to the stock’s Cost Basis. Many teams will see their portfolios “under water” or below the original $100,000. This is a good time to remind students that the stock markets are risky and should be held over a period of years for the historical 10 % returns to be realized.

One of the worst moves a team could make is to sell shares after buying them; this would incur another 1 % commission on the sale and locking in or “realizing” the loss. A **realized gain or loss happens** when a team buys and then sells the same shares. An **“unrealized gains or losses” or paper gains or losses** is when you buy a stock but have not yet sold it. Please remind students about the benefits of the “Buy & Hold” strategy.

If a team’s trade does not go through, I have listed the most common “error messages” based upon one of the following SMG rules broken:

1. Maximum equity position limit is $30,000. This means you can only invest a maximum of $30,000 in one company. If you try to buy more than this maximum, teams will receive an error message “position limit exceeded.”
2. The minimum price of a stock to purchase must be at least $3.00 a share.
3. The minimum number of shares to buy is 10 shares.
4. The margin line of credit is $50,000. This means that in addition to your initial $100,000 in cash, teams may borrow an additional $50,000. Teams will be charged 7 % simple interest on the margin loan.
5. Trades submitted after the close of trading hours will be executed at the opening of the next trading day.

Here are the three Major Market Indices and their respective Returns on Investment; teams should compare the Index Portfolio Values with their team’s Total Equity Value. Professional investment managers receive bonuses if their stock picks beat the indices.

<table>
<thead>
<tr>
<th>Index</th>
<th>Reading at Feb 5 (open)</th>
<th>Reading at Feb 9 (close)</th>
<th>Up or Down %</th>
<th>Index Portfolio Value *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones Industrial Average</td>
<td>25,338</td>
<td>24,191</td>
<td>- 4.5 %</td>
<td>$94,500</td>
</tr>
<tr>
<td>Nasdaq Composite</td>
<td>7,166</td>
<td>6,874</td>
<td>- 4.1 %</td>
<td>$94,900</td>
</tr>
<tr>
<td>Standard &amp; Poor’s 500 Index</td>
<td>2,741</td>
<td>2,620</td>
<td>- 4.4 %</td>
<td>$94,600</td>
</tr>
</tbody>
</table>

* Hypothetical $100,000 investment in each Index at start of game, minus the 1 % commission ($1,000) charged to teams when buying or selling stocks.
Top Teams in Each Division

Here are the Top Teams in each Division at the end of Trading Week 1:

<table>
<thead>
<tr>
<th>Division / Number of teams (n = 190)</th>
<th>Portfolio Value</th>
<th>School</th>
<th>Teacher or Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School / 136</td>
<td>$111,320</td>
<td>Rapid City Stevens</td>
<td>Darren Paulsen</td>
</tr>
<tr>
<td>Middle School / 39</td>
<td>$100,103</td>
<td>St. Joseph Elementary</td>
<td>Steven Rounds</td>
</tr>
<tr>
<td>College / 15</td>
<td>$103,297</td>
<td>BHSU</td>
<td>Danny O’Dea, Acct 480</td>
</tr>
</tbody>
</table>

Economic News impacting the stock markets: Next week will be a busy economic report week with reads on Inflation from the January CPI and PPI reports; all expected to show a rise in prices. Reports on the financial health of Consumers, who purchase 70% of GDP, will be on display with the Retail Sales report for January and the University of Michigan Consumer Sentiment Index will be released.

Classroom Discussion Question: Financial Reports impact Stock Market Prices

Why are there big price swings in the Stock Markets in the weeks following the end of each calendar quarter?

Volatility in the stock markets refers to dramatic up or down price movements in a single trading day. December 31, 2017 was the close of the 4th Quarter and the Securities and Exchange Commission requires that all publicly traded companies release their financial reports to the public. The weeks following the end of a calendar quarter is called “earnings season” when thousands of companies release their financial reports to the public. During this time, dramatic price swings occur as investors sell companies showing poor financial results and buy shares of companies showing good financial results.

The most important quarterly financial report from an investor’s perspective is the Income Statement. The income statement shows the company’s revenues earned (top line), expenses incurred and the resulting net income or profit (bottom line) for the three month time period ended.

Net income is total Revenues minus Expenses. Producing net income is important to a business as it funds paying dividends to investors or bonuses to employees. A key financial ratio on the Income Statement is Earnings per Share or EPS. EPS is a fraction calculated by dividing quarterly net income by the common stock
shares outstanding. The result is a dollar amount per share; for example $1.50 per share and allows investors to compare large and small companies. Professional investors consider rising quarterly EPS as the main driver of stock prices.

When companies release their quarterly financial reports to the public, investors look for answers to the following three questions:

1. Did the company’s Sales Revenue (top line) and EPS (bottom line) increase or decrease versus the same time period last year and last quarter?

2. Did the company’s Earnings per Share Exceed, Meet or Fall Short of research analysts estimates?

3. What is the Company’s Guidance on next quarter’s estimated Sales revenues and earnings per share by research analysts?

If a company disappoints investors in answering any of the above questions, the price of the stock usually falls as many investors sell the shares. However, the opposite is true when a company surprises investors on the upside.

If you have any questions, please email me at donaltmyer@bhsu.edu

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