

Futures Trading Game Module FRE 501 2013

Lab Sessions: TBD

Learning Objectives

- Understand commodity futures – their role and how they function
 - Commercial users vs. Speculators
 - Price discovery and systemic risk management (Novation, Margining)
- Gain an appreciation of the factors that drive commodity prices, and learning how to filter and weight information ('old and priced in' vs. 'new and relevant')
- Be able to formulate trading and hedging strategies, and communicate those ideas effectively
- Be able to identify, evaluate, and articulate the risks associated with trading commodity futures, and understanding how to manage these risks

In this portion of the course, students will learn how commodity futures markets work, formulate and test their own trading and hedging strategies, and understand how to manage risk.

For 6 weeks, students will trade in a simulated commodity futures market (CME Group) and summarize their experiences at the end of each week on individual blogs, which will be peer-reviewed. Each lab session will consist of a 20 minute review of the blogs by the pre-assigned reviewing group, followed by a 40 minute lesson covering different topics each week. The 6 week trading exercise will be concluded with an overview of the lessons learnt, and a peer evaluation, which is part of the selection process for a team of 5 students (codename 'Alpha') for a global competition in February (see details below).

The remaining 4 lab sessions will focus on competition preparation, technical analysis (for short-term trading), and Q&A time for exam preparation. Alpha team will lead the class each week in a forum sharing their strategies/lessons learnt, and solicit feedback from the rest of the class.

As part of this course, students will also create a public profile (ubc blog) and a twitter account which they can use for the rest of the program as well.

Competition details and selection process:

The MFRE program intends to send a select group of 5 MFRE students to participate in the 2014 CME Group Trading Challenge, a 4 week global online competition in February (subject to CME deciding to continue the competition, of course). This team would be UBC's first, sent to compete against 300+ teams from 180 universities worldwide. The top 4 teams of the competition receive cash prizes, and members of the winning team may be interviewed for a paid summer internship in Chicago.

See http://www.cmegroup.com/education/trading_challenge/ for more details.

Team '**Alpha**' will be selected based on the following factors:

- Peer Review
 - Weekly peer review of blog-posts
 - End of exercise peer review
- Risk-adjusted portfolio performance
 - Profits divided by average margin requirement
 - Calendar and inter-calendar spreads are not supported by the system (interested parties can talk to me individually)
- Level of personal interest (interested students must submit a 1 page written statement by October 25th about why they would like to be part of this team representing UBC)

Futures Trading Lab Schedule:

Wk	From	To	Lab Dates	Lab Plan	
				1st Half	2nd Half
1	03-Sep	06-Sep		Admin, Game Setup	Excel / Access Module
2	09-Sep	13-Sep		Portfolio reporting, Blog formats	Introduction to Futures Markets
3	16-Sep	20-Sep		Individual Trading Game Peer Group Reviews Group 1-6	Contract specifics (C,W,S), margining
4	23-Sep	27-Sep			Risk Management Concepts
5	30-Sep	04-Oct			Information and expectations
6	07-Oct	11-Oct			Skype with Futures Trader (Chicago)
7	14-Oct	18-Oct			Corporate Hedging Strategies (and instruments)
8	21-Oct	25-Oct			Risk Management : Corporate vs. Bank
9	28-Oct	01-Nov			Advanced techniques: (bull/bear spreads)
10	04-Nov	08-Nov			Peer evaluation exercise; Alpha Team selection
11	11-Nov	15-Nov		Team Alpha Game Team Alpha announced Competition Preparation: Trading Strategy forum led by Team 'Alpha'	Skype with ex-Barclays Ag commodity Sales, SG
12	18-Nov	22-Nov			Technical Analysis: Andrew Pangilinan
13	25-Nov	29-Nov			Exam Preparation Q&A

Individual Trading Game:

Administrative details for the individual trading game will be given at the first class on **Tues, Sep 3rd**.
 Registration for the trading account is open from **Tue, Sep 3rd to Fri, Sep 13th**.
 Trading will commence on **Mon, Sep 16th** and end on **Fri, Oct 25th**.

Instructions for Blogging /Tweeting and Peer Group Review:

At the end of each trading week, each student is responsible for an individual blog posting detailing his/her portfolio and experiences (due midnight each Friday). The post should be at least 200 words (no upper limit).

- Trade and Portfolio Summary (cumulative)
- A personal reflection of the week's trade and performance, and lessons learnt
- Strategy for the week ahead, if any
- New trading and information sources for the class, if any

Each following Saturday to Monday, a random pre-determined peer review group of 4 students will evaluate the 20 other blog posts based on the quality of discussion and clarity of communication. The reviewers will submit a confidential ranking report (**due Monday** midnight) with the following information.

- Best 5 posts: 6 pts each
- Worst 5 posts: 2 pts each
- Middle 10 posts: 4 pts each
- Absent posts: 0 pts ; Late posts: Subtract 50% from pts

To encourage and facilitate group learning, the reviewers may nominate up to 5 insightful commenters to receive 2 additional pts each.

Each reviewer group will give a short presentation (20-30min) at the respective lab session on the following:

- Best 5 blog posts (and best comments, if any)
- Summary of lessons learnt for the group – successes and failures
- Summary of noteworthy events / articles / external blogs
- Any new information sources

Each week, the review group will also aggregate new information sources shared by the class, and post on FRE501 wiki page: <https://wiki.ubc.ca/Course:FRE501>

Grading (out of 20):

Peer Evaluations: **14%**
 Reviewer Group Presentation: **6%**

Team Alpha Instructions:

Will be given to team alpha upon selection

Administrative Instructions:

Create a UBC blog by going to <http://blogs.ubc.ca/> and logging in with your cwl. Avoid photo blog templates and choose a text-friendly template easy for your classmates to read.

A class volunteer will be responsible for compiling the bloglist and posting it on his/her blog.

Create a Twitter account by going to <https://twitter.com>. Thereafter, send a tweet to me @markliew1 with "mfre 2014" and your name (Example "mfre 2014 mark liew") I will add you to the mfre2014 twitter list. You will be able to follow your classmates' tweets by following this list.

Recommended Format for Portfolio and Trade Summary

Example (see excel file):

Portfolio Summary

<i>Ending</i>	<i>13-Sep</i>	<i>20-Sep</i>	<i>27-Sep</i>	<i>04-Oct</i>	<i>11-Oct</i>	<i>18-Oct</i>	<i>25-Oct</i>
Start	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5	Wk 6	
Equity Balance (Portfolio Value)	100,000	105,000	110,000	115,000	120,000	125,000	130,000
Ending Margin Requirement	-	15,000	5,000	30,000	20,000	15,000	5,000

Performance

	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5	Wk 6	Wk 1-6
Profit or Loss for period	5000	5000	5000	5000	5000	5000	30000
Avg Margin Requirement (for week)	15000	5000	30000	20000	15000	5000	15000
Risk-adjusted Gains (or Losses)	33%	100%	17%	25%	33%	100%	200%

Trade Summary

Bought/Sold to Open/Close	Date	Qty	Comdty	Contract Month	Price
Bought to open	18-Sep	5	Corn	Dec-13	4.84
Sold to close	19-Sep	5	Corn	Dec-13	4.90