

Revision history: Some changes suggested at the April 2021 Melbourne meeting of the User Group and ratified in the following webinar.

At the January 2020 Melbourne meeting and webinar session of the BCUG, the meetings agreed to run a stock-picking / portfolio game and agreed on the “rules” as follows. These rules are subject to revision at future BCUG meetings/webinars, and were tweaked in the February 2021 sessions, and again in the April meeting.

Overview – This exercise gives BCUG members the opportunity to select a stock to hold for a period of time (without actually spending any money or actually purchasing the stock), and to test out one’s trading strategy and compare it with that of other members. The measure of success (or failure) will be the share price movement over the period in which the stock is held, plus any dividend that is paid.

Purpose – The purpose of this exercise is as follows:

- (a) To give BCUG members the opportunity to share ideas about stock selection strategies, and exit strategies.
- (b) To encourage discussion around the meeting table, and off-line, about stock selection, trading and investing.
- (c) To enable the BCUG members to learn from the ideas and thoughts of others.
- (d) To induce a sense of seriousness to the game by making it a competition.

The first game will be a trial so as to iron out bugs, and give everyone a chance to understand the “rules”. It will commence at the February 2021 meetings, and it will end one week before the April 2021 meeting (ie. the close of trade on Tuesday 13 April). Based on the experience over that time, these rules might be modified, with the intention of starting a new game at the May 2021 meeting, with the game to conclude on 30 November 2021 so that results can be finalised for announcement at the December 2021 meeting and webinar, and the player with the highest portfolio value duly recognised and rewarded.

Game Rules

1. **Participation is optional** – Participation in this activity is purely optional, and User Group members are quite welcome to simply observe the game activity without participating.
2. **Stock universe** – Will be the All Ordinaries index (XAO) on the Australian ASX market.
3. **Nominating a stock** – At the first meeting, every attendee will be able to nominate a stock for purchase, and explain why they have chosen it (ie. selection criteria), which might be for a technical analysis reason, or a fundamental analysis reason. At future meetings, new members or players will be admitted and able to nominate their own stock.
4. **Multiple owners** – More than one person can opt to “purchase” the same stock.
5. **Portfolio value** – Each person will be allocated the sum of \$10,000 of “fantasy money” to put toward their stock purchase, and can nominate to spend all \$10,000 or a smaller amount.
6. **Number of stocks to hold** – Only one stock can be held at any one time.
7. **Position purchase** – The stocks will be considered to have been purchased at the open price on the next trading day.
8. **Stock sale** – During a month, a player’s stock might be sold under one of two conditions

as follows:

- (a) The share price might fall and trigger an exit based on the declared exit strategy. To determine the sale price and hence the resulting profit or loss, the player's previously shared exit strategy will be referred to.
 - (b) The player might decide to sell for a valid and previously undisclosed reason, such as using one of many possible discretionary and hard-to-define exit triggers. In this case the player is to email the game administrator well before the open of the next trading day to advise that the position is to be closed, and the sell price (which could be any validly traded price within the total range of the daily candle).
 - (c) If there is no previously shared exit strategy and an arbitrator is needed, then the BCUG meeting will determine the sale price to be recorded which might be the daily close price for the day in question.
9. **Exit strategy** – Each player is encouraged to have a pre-defined exit strategy, and to share this with the group in advance. If a held stock falls during the month, then the player will be deemed to have exited the position provided they have previously declared their exit strategy.
 10. **Exit strategy not declared** – If a player claims to have triggered their exit strategy, and they have not previously declared the details of their exit strategy, then the BCUG meeting will determine if the described exit strategy should be considered and the stock sale noted.
 11. **Position/parcel size** – In order to be mindful of the issues of liquidity for large parcel sizes, a parcel purchase will only be permitted up to the value of the 10 day Simple Moving Average (SMA) of daily Value traded. (For an explanation for this rule, see the sample price chart and comments at the end.)
 12. **Subsequent stock purchases** – In the situation that a game player sells a stock, and then buys another, the following will apply. If the player's portfolio value has been reduced below the initial \$10,000, then the portfolio value will be reset to \$10,000. If the player's portfolio value has increased beyond \$10,000, then the actual value can be used for the second and subsequent purchases.
 13. **Monthly review** – At each subsequent BCUG meeting/webinar the performance of each selected/purchased stock will be reviewed and noted.
 14. **Dividends** – Any dividend paid will be tallied along with the capital gain/loss.
 15. **Subsequent stock purchases** – Any player who does not hold a stock (such as a player whose holding has been sold) can nominate another stock for purchase at the open next day.
 16. **Stock sales** – At a BCUG meeting/webinar a player can nominate to "switch horses". That is, to sell their current stock and purchase a different one at the open next day.

Note: It could be argued that there is no point in allocating a sum of money (in this case \$10,000) to each player, and that we simply record the percentage change in value of the chosen share from month to month.

[Note comments from the February 2021 webinar: It is preferred to use dollar amounts as they are more realistic and meaningful than studying percentage change, and the percentage change method of tracking will be difficult for the administrator to record and manage once a player has more than one buy/sell trade during the game period.]

Feedback and suggestions welcome.

Robert Brain

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stock picking trading game administrator

Position / parcel size and stock liquidity [This section added as a result of discussion in April]

Consider the following situation.

- Let's say someone buys a \$10,000 parcel of shares which normally trades about \$50,000 worth of shares in one day. That is, the parcel is 20% of the daily value turnover. Now if we try to sell that parcel in one hit, it's very possible that the sale will influence the share price, and result in a selling stampede.
- So, in our Game, even though the buying and selling is not actually happening in the real market, should we allow a game participant to trade in this (unrealistic) way?
- If we were running the game like the ASX Share Market game, then the trades in the game would only take place in line with the actual trades in the game. That is, if someone wants to buy a large parcel of shares, and that the desired quantity is not currently offered in the real market, then in the ASX Game the full share parcel would not be purchased.
- So, how to manage this in our own Stock Picking Game? It was agreed that **a purchase will only be permitted with a daily traded value up to no more than 5% of the 10 day Simple Moving Average of the daily value**. Therefore, to allow a full share parcel value of \$10,000, the **average value traded each day** needs to be greater than \$200,000. See the following sample price chart and note the following comments.



- In this sample daily price chart:
 - The lower pane is *daily value traded* and NOT volume.
 - The horizontal dotted, red line represents a daily Value of \$200,000.
- The dashed curve on the Value pane is the 10 SMA of Value. It is important to use an MA of Value rather than focus on just the latest daily Value. The 10-day parameter is somewhat arbitrary, as is the Simple MA as opposed to any other MA.

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