

## INVESTING RULES

1. **Initial Cash Balance:** The Hawaii Stock Market Simulation begins on September 26, 2011 and ends on December, 2011. Each team will begin with \$100,000.
2. **How To Invest:** Before making any transactions, you must have your team number, password, and the ticker symbols of the securities you wish to buy/sell.
3. **There are Two Versions of the Program**

**The Internet version:** Go to: <http://www.hawaiisms.com> . Visit our home page to submit transactions, review your team's activity, research stocks, obtain quotes, find ticker symbols, and review your team's ranking. This is the best way to make transaction because it is fast, accurate, and convenient.

**The Fax version:** (Fax Line Toll-Free: 1-888-275-0969) You may fax in your transactions 24 hours a day. (This version is also used as a back up for the Internet version). You must send your transaction request in on the fax form provided to you. The form may be found as a link on the left navigation bar on the Hawaii SMS website. The fax form can be viewed and printed using Adobe Acrobat Reader. All information must be filled in completely for the transaction to be processed.

*Teams registered as a fax version team can only make transactions via the fax. Teams registered as an Internet version can only make transactions via the Internet, unless there is a technical problem which require them to transact via fax. Teams cannot change versions during the 10-week program.*

**Investing in Stocks:** There are two basic ways to purchase or sell stocks: buy (BO) and sell (SC). When buying a stock, you are taking a "long position" with the hope that the price per share will increase. When you sell a stock, you close or reduce that long position. Day trading is not allowed. Duplicate transactions on the same day are not allowed.

**Investing in Bonds:** Hawaii SMS allows you to buy or sell bonds. Bonds are notoriously difficult to research. A selection of Corporate Bonds, Treasury Bonds, Strips, and Bond Mutual Funds is listed on the bond transaction screen. All bonds have a par value of \$1,000. When you buy a bond, you must pay the accrued interest on the bond. On your statement, the accrued interest and commission are added together. You cannot short a bond. Students may purchase a balanced or bond mutual fund to cover their bond requirements. As portfolios are evaluated at the end of the simulation, mutual funds containing bonds will be considered. However, it is up to the teams to monitor and calculate their bond percentage throughout the simulation.

**Investing in Mutual Funds:** Hawaii SMS allows you to buy or sell mutual funds. Mutual funds are transacted in dollar amounts not by number of shares. Mutual funds must be bought or sold in lots of \$500. To sell off all of your mutual fund shares enter a "99999" in the box for dollar amounts. Like stocks, in order to buy or sell mutual funds you must have the ticker symbol. All mutual fund ticker symbols are five letters long ending in "X".

#### 4. **Investing Times and Prices Received**

**Stocks:** Transactions made via the web page will receive 15-20 minute delayed prices if placed while the market is open (generally 9:30 a.m. and by 4:00 p.m. EST). Transactions placed after the market has closed will receive the next day's open price. Transactions made via fax and received before the market close will receive that day's closing price. Fax transactions made after market close will receive the next day's closing price.

**Bonds:** Orders placed via the web page will receive end of day prices. Orders placed via fax and received by market close will be executed at that day's closing price. Orders received after market close will receive the next day's closing price. Since bonds pay interest via coupons, when you buy bonds in between coupon dates, you must pay accrued interest. You will earn interest at the coupon rate while you continue to hold the bond. If you sell your bond during the simulation, you will receive all that accrued interest.

**Mutual Funds:** Mutual funds are always transacted at the end of day prices (NAV or net asset value). Transactions received before market close will be placed at the closing price for that day. Transactions made after market close will receive the next day's closing price.

5. **Splits and Dividends:** All stock splits and all dividend payments over \$0.10 will be credited to your portfolio. Splits that have been credited to your portfolio have the appearance of a buy or short sell, but the price per share is \$0.00. Dividends will appear in your portfolio with a "DIV" attached to the ticker symbol.
6. **Securities that can be bought or sold**

**Stocks:** You may buy, sell, sell short, and cover a short for almost all NYSE and NASDAQ-AMEX stocks (common and preferred) that are priced at \$5.00 or more and have a current reported volume of at least 10,000 shares. IPOs are usually available within 48 hours of the day the stock is first listed on the exchanges.

**Bonds:** The bond transaction page has a limited set of 103 bonds that participants can choose from. All bonds have a par value of \$1,000. You cannot short a bond.

**Mutual Funds:** You may buy and sell any of the U.S. Mutual funds listed, regardless of the price (No \$5.00 minimum price as with stocks.)

7. **Volume and Purchase Restrictions:** Throughout the simulation, teams may invest no more than \$50,000 in any one stock. For example, if you buy \$50,000 in any one stock and the price increases, you are not required to sell any portion of that stock to remain at \$50,000. Teams may not buy stocks priced for under \$5 per share (no penny stocks). The maximum number of shares a team may transact is limited to one-half of the actual volume for that day. All stocks have a 25 share minimum but do not have to be in multiples of 25 shares per transaction. For example, you can now buy 26 shares or 157 shares, but not 24 shares. Mutual funds must be transacted in lots of \$500.
8. **Ticker Symbols:** You need to know the ticker symbol for the security before you can buy or sell it. Please note that most local newspapers show only the abbreviation of the company name, not the ticker symbol. The Wall Street Journal and the SMS web page are two really good sources to help you find the ticker symbols you need. You can also find links on our

research page that will help you find a certain ticker symbol.

9. **Commissions:** A broker's commission is applied to most transactions. The commission for stock transactions is a flat fee of \$25 on each transaction regardless of the number of shares. If you sell one stock and buy another you will be charged two commission fees. Mutual funds are not charged a commission.
10. **Interest Earned:** Interest will be earned on all available cash balances and credited at the close of each day. During the simulation, cash balances will earn 3% interest, compounded daily.
11. **Interest Charged:** Interest will be charged on all loan balances and will be debited at the close of each day. During the simulation, loan balances will be charged at 8% interest, compounded daily.
12. **Portfolio Statements:** Team activity or portfolio statements are available on the Internet at [www.hawaiisms.com](http://www.hawaiisms.com) 24 hours a day. Students are encouraged to print these off periodically. It is important to keep copies of the statements received since they cannot be reprinted. Team activity and team rankings are updated every business day on the web page.
13. **Number of Transactions:** Each team is limited to 100 transactions during the 10-week period. Each buy, sell, short sell or short cover counts as a transaction. For example, if you buy a stock and sell another stock you will be charged with 2 transactions.
14. **Incentive/Competition Eligibility:**

Teams must have at least 5 investments in their portfolio by the end of the 3rd week of the simulation, and must continue to hold at least 5 for the remainder of the simulation. Teams may not invest more than \$50,000 in any one stock during the simulation.

- **Income/Growth Division (Grades 9-12):** portfolio must contain 50% stocks and/or stock funds and 50% bonds and/or bond funds
- **Growth Division (Grades 9-12):** portfolio must contain 65% stocks and/or stock funds and 35% bonds and/or bond funds
- **Aggressive Growth Division (Grades 9-12):** portfolio must contain 80% stocks and/or stock funds and 20% bonds and/or bond funds.
- **Elementary Division (Grades 3-8):** portfolio does not have to contain bonds or bond funds.

**To be eligible for incentives:**

1. Each team must have between 2-4 students.
2. Team must meet the following deadlines (**based on Eastern Time, not Hawaii Time**). The following rules must be met by the closing Bell on the New York Stock Exchange on the following days (EST and EDT is very important for these rules):

**October 14, 2011:** Teams must make their initial purchases and have a minimum of 5 different equity positions (stocks, bonds, and mutual funds).

**November 4, 2011:** Teams must meet their stock/bond allocation.

Income/Growth Division: 50% stocks and 50% bonds

Growth Division: 65 % stocks and 35% bonds

Aggressive Division: 80% stocks and 20% bonds

**December 2, 2011:** Teams must continue to hold a minimum of 5 equity positions and continue to meet their stock/bond allocation.

To be eligible for incentives, teams must make their initial investments and hold a minimum of 5 equity positions on or prior to October 14, 2011. They also must meet their stock/bond allocation on or prior to November 4, 2011. Teams must continue to hold a minimum of 5 equity positions and continue to meet the allocation requirements until the end of the simulation. Teams that invest in stocks only and purchase bonds in the last days or weeks of the session will not be eligible for incentives.

*The dates listed above are based on New York time, not Hawaii time. For example, if a team purchases all of their bonds on the afternoon of Friday, November 4th after the markets are closed, the transaction will actually be made on Monday, November 7th, 2011. This team did not make the bonds allocation deadline. Please keep in mind the time difference when making transactions.*

The requirements above have been put into place to give the students a more realistic environment in which to invest.

3. Each team must outperform the benchmark in their division to be eligible for incentives.

At the end of the investment session, the top team's portfolios will be compared to a relative benchmark of the proper asset allocation (same asset allocation based on division in which the team is participating) of the 10-yr Treasury Note and S&P500 stocks. If the team outperforms this benchmark and meets the stock/bond allocation criteria of their division, it will be eligible for incentives.

**A team that accumulates a total portfolio value well above the benchmark but does not have the proper allocation of stocks and bonds will not be eligible for incentives.** [The benchmark is listed on the ranking page in blue.](#) Each team's ranking is listed in red on the ranking page.

*Please remember that the Hawaii SMS is an educational tool and student participation is intended to be under the supervision/guidance of a teacher or parent.*

***In order to maintain the integrity of the program all student team registrations MUST contain the following information in order to be eligible for the incentive competition:***

- 1) Complete TEACHER information including TEACHER'S full name, TEACHER'S email address, and TEACHER'S phone number*
- 2) Complete SCHOOL information including SCHOOL name and SCHOOL mailing address with city, state, and zip*
- 3) Number of students participating*
- 4) Student grade level(s)*
- 5) TEACHER must be identifiable by the Username*

***Entries missing any of the above information will not be considered in the weekly rankings or final winners' calculations.***

### **Determining Proper Allocation**

You can determine the percentage of stocks and bonds in your portfolio by using the formulas below. Use the Portfolio and Summary pages to gather your data.

$$\% \text{ Stocks} = \text{Net Stocks} \div \text{Total Portfolio Value}$$

$$\% \text{ Bonds} = \text{Net Bonds} \div \text{Total Portfolio Value}$$

Calculate the total portfolio value using this formula:

$$\text{Total Portfolio Value} = \text{Net Cash} + \text{Net Stocks} + \text{Net Bonds}$$

Calculate the net stocks and net bonds using these formulas:

$$\text{Net Stocks} = \text{MVLP (Stocks)} + \text{MVLP (Stock Mutual Funds)}$$

$$\text{Net Bonds} = \text{MVLP (Bonds)} + \text{MVLP (Bond Mutual Funds)}$$

Calculate the net cash using this formula:

$$\text{Net Cash} = \text{Ending Cash Balance}$$

MVLP = Market Value of Long Position

As the simulation progresses, teams may find it necessary to reallocate in order to maintain the proper balance of stocks and bonds. When the judges are reviewing final portfolio values for incentive eligibility, a range of 20 points will be allowed in each category, 10%

percent on either side of the target. To be eligible for incentives a team's final portfolio must meet the following requirements on the last day of the simulation.

Income/Growth Division: 40-60% stocks and 40-60% bonds

Growth Division: 55-75% stocks and 25-45% bonds

Aggressive Division: 70-90% stocks and 10-30% bonds

**Remember:** Teams are still expected to meet the original target allocation of stocks and bonds by the November 4, 2011 deadline.

16. **End of the Simulation:** Please *do not* convert all of your investments to cash on the last day of the simulation. Your portfolio will be valued at the closing prices for that day. Official winners of the simulation will be notified by the Hawai'i Council on Economic Education.

17. **Disputes and Errors:** If you and your teacher believe an error has been made in your portfolio, your teacher may call STOCK-TRAK @ 1-866-SMS-DESK, toll-free, to discuss the problem. Please review your statements and report any problems right away.

- The Hawai'i Council on Economic Education and STOCK-TRAK are not responsible for transactions or quote prices that are incomplete, incorrect, or not received.
- The Hawai'i Council on Economic Education and STOCK-TRAK may use various methods (such as time and tape analysis) to resolve disputes. The decision made by the Council and/or STOCK-TRAK is final.
- The Hawai'i Council on Economic Education and/or STOCK-TRAK has the right to adjust or delete transactions that are believed to be incorrect, and the right to terminate any account that they believe may have attempted to exploit, manipulate, or sabotage any part of the SMS system and/or web page.
- The Hawai'i Council on Economic Education and/or the management of STOCK-TRAK have the ultimate authority to settle disputes.
- The Hawai'i Council on Economic Education and STOCK-TRAK's liability is limited to the fee paid for the service.