Final Project

Professor Bernard Herskovic
bernardherskovic@anderson.ucla.edu
Due on Tuesday 6/4, 8:30am

You can work in groups of up to 5 students. Please submit a write-up with a maximum of 2,000 words, excluding tables, graphs, appendices, and references. Use CCLE to submit your write-up. Don't forget to put the names of all members of your group in the write-up.

Imagine that you are designing an investment strategy proposal that is going to be implemented and offered to potential investors/clients of a bank or a fund.

In this final project, you have to write a trading strategy proposal. The strategy has to be new, i.e. something that we did not cover in the problem sets.You will have to do your own research to find something interesting. You have to explain the strategy in detail, discuss its pros and cons, and argue why your strategy choice is better than the alternative ones.

Keep it short, concise and to the point. The write-up is limited to 2,000 words. In addition, there will be a ten-minute in-class presentation. The group chooses who will present (one person or more than one, it's up to the group to decide). During these ten minutes, you will have to clearly present your idea, and all the students in class are encouraged to ask questions.

You should replicate the proposed strategy. Your write-up should contain a section in the Appendix describing the empirical procedure.

Address and justify the following questions:

- Why should the investor follow your strategy as opposed to alternative strategies?

- Is your strategy delivering alpha? Is it a mispricing that will be arbitraged away, or is it a compensation for risk?

- What are the main costs and risks associated with your strategy?

- Quantify the expected excess return, volatility, and Sharpe ratio

- Quantify the strategy's performance in terms of exposures to other risk factors. Estimate factor models' alphas and beta. For instance, use the CAPM and/or three-factor Fama and French model.

- To validate your strategy, which robustness exercises can you implement?

Be Creative!