

Capstone Sim Portfolio Objectives, Activities, and Grading – Module 2

Module 2 – Developing a Macro View / Tactical Portfolio Shifts

In Module 2, you will analyze the macroeconomic and market (macro) environment and will forecast returns over the next 6 months – 1 year for the assets (or asset classes) you own in your Policy Portfolio. Using the SIMS system, you will report on the results of your analysis and make those needed tactical alterations or trades to your Policy Portfolio. The resulting portfolio will be called your Current Portfolio.

SIMS Bullet Point Instructions

- Fill in **Final Report** tab (page 1)
 - Briefly describe Tactical Shifts for Current (or Tactical) Portfolio (page 1 middle)
 - Briefly describe Macro Environment (page 1 middle)
 - Copy & paste (as picture) Forecasted Efficient Frontier (page 1 bottom)
- **Trades**
 - Rebalance by buying New Tactical Positions and selling any Policy Portfolio assets; Be sure to check “Remaining Cash Value” to end up with correct amount of cash
- **Risk & Returns**
 - Input expected returns for Policy Portfolio assets
 - Input return, standard deviation and Sharpe Ratio for New Tactical Positions (expected return optional)

Note: For each New Tactical Position you buy, you will need to input return, standard deviation and Sharpe Ratio in **Risk & Returns**.

Detailed Instructions

Developing the Current Portfolio

Once you have forecast your returns, use Portfolio Visualizer – Forecasted Efficient Frontier** to look at the impact of your forecasts on your asset allocation to help determine any tactical changes (temporary or short-term changes) needed to your Policy Portfolio. These tactical changes could include changing weightings, the purchase of new assets, and / or the sale of Policy Portfolio assets (zero weighting). Using the SIMS system, you will report on the results of your analysis and make those needed tactical alterations or trades to your Policy Portfolio. The resulting portfolio will be called your **Current Portfolio**.

➤ **Portfolio Visualizer website:** <https://www.portfoliovisualizer.com/>

**Note: You may want to use Portfolio Visualizer – Mean Variance Optimization to supplement your asset allocation analysis using the specific ETFs that you are considering for your tactical or Current Portfolio.

- Note: Since Forecasted Efficient Frontier only works for Asset Classes, you may need to use Mean Variance Optimization for the specific ETFs in your Current Portfolio

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New Tactical Positions / Trades

Make trades as necessary to get to your tactical or Current Portfolio allocation. All trades after the Policy Portfolio (purchases of new assets or sales of existing assets) are handled in the “New Tactical Positions” section of **Trades** sheet.

- **Ticker** – Enter the ETF ticker into **Trades**
- **Buy / Sell** – Select from the dropdown menu
- **Transaction Date**
- **# of shares****
- **Price**

**Use the “Share Calculator” to provide # of shares: Enter the “% Desired” and the “Share Price” and the calculator will give you the # of shares to buy or sell.

Trades should be done at the current price available in the marketplace if during US trading hours or at the market closing price if done after US market hours.

Of course, any new purchases will mean that you need to sell some percentage of your Policy Portfolio assets. In **Trades**, check the “Remaining Cash Value” at the top right of the “New Tactical Positions” (cell O31) to be sure you have positive cash (of around 1% or more if you have selected a higher cash allocation).

New tactical positions from **Trades** sheet (those assets not in your Policy Portfolio) will automatically populate the **Risk and Returns** tab. (Note: Trades also flow through to two sheets we will deal with in Module 3 – Price Inputs and Current Portfolio.) If you do not have any new assets (in other words, you are only holding Policy Portfolio assets), then no positions will show up in “New Tactical Positions” tables on the **Risk and Returns** tab (nor in the “New Tactical Positions” table on the Price Inputs worksheet)

Expected & Historical Returns for New Tactical Positions

Input the following into the **Risk and Returns** tab:

- Your forecasted returns into the “Policy Portfolio” table at the top
- Historical return (CAGR), standard deviation, and Sharpe Ratio from your Portfolio Visualizer analysis for any New Tactical Positions in the “New Tactical Positions” table at the bottom
- At your option, you may also want to estimate forecasted returns for New Tactical Positions

Important Note: It is important that you include the risk and returns for all Policy Portfolio assets and New Tactical Positions because you will need this for your final performance analysis in Module 5.

Final Report

In the middle of page 1 **Final Report**, please briefly comment on your view of the “Macro Environment” as well as make any comments that you have on “Tactical Shifts” you made from the Policy Portfolio as a result of your forecasting. Also copy and paste (as a picture) the Forecasted Efficient Frontier from Portfolio Visualizer into the bottom of page 1 of your **Final Report**.

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Module 2 – Grading Rubric

Below is the grading rubric on Module 1 activities that will be used in Module 6 peer grading of your final Sim Portfolio product.

Current Portfolio / New Tactical Positions

Does the Current Portfolio contain between 3 and 9 assets (in addition to cash) at all times? (Note: You will need to review the trades and dates in the **Trades** worksheet)

- 0 – No, too many or too few at all times
- 1 – Sometimes yes, but other times too many or too few
- 2 – Yes, between 3 and 9 assets at all times

Are Tactical Shifts briefly described in the **Final Report** (page 1 middle)?

- 0 – No
- 1 – Yes, but only partially
- 2 – Yes

Is the Macro Environment briefly described in the **Final Report** (page 1 middle)?

- 0 – No
- 1 – Yes, but only partially
- 2 – Yes

Risk & Returns Analysis

Are Expected Returns included for all Policy Portfolio Assets in the **Final Report** (page 3 top)?

- 0 – Not done
- 1 – Partially done
- 2 – Completely done

Are Historical Returns, Standard Deviation, and Sharpe Ratio included for all New Tactical Positions in the **Final Report** (page 3 bottom)? Note: Expected returns for New Tactical Positions are optional.

- 0 – Not done
- 1 – Partially done (some are completed but less than half)
- 2 – Partially done (not all are completed but more than half)
- 3 – Completely done

Is the Forecasted Efficient Frontier copied into the **Final Report** (page 1 bottom)?

- 0 – No
- 1 – Yes