

The Challenges and Opportunities of Student-Managed Investment Funds at Metropolitan Universities

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The number of student-managed investment funds has grown rapidly in recent years. In the four decades since the first student-managed investment fund was established at Gannon University, the number of such funds has grown at a rate of less than one per year to thirty-four in 1993. However, that rate of growth has changed dramatically in recent years. Oak Associates Ltd., the Akron, Ohio based investment-management company, has funded ten student-managed investment funds since January 1996. The fund established by Oak Associates Ltd. at The University of Akron provides students with the opportunity to learn about investing real money on a real-time basis. The Oak Grant provides significant educational opportunities at the University and some real challenges in the organization and management of the funds.

I. INTRODUCTION

A number of recent papers discuss the history, development, challenges and opportunities for student-managed investment funds at colleges and universities. Lawrence (1994) provides an excellent discussion of the history and development of student-managed investment funds since the first such fund was established at Gannon University in 1952 through the thirty-four student managed funds operating as of June 1993. At that time, the funds ranged in size from six thousand dollars to more than eight million dollars. Johnson, Alexander and Allen (1996) provide a thorough presentation of alternative decision making environments. Block and French (1991) provide an excellent discussion of the process for starting and operating a student-managed investment fund.

The student-managed investment fund provides some interesting challenges in its organization and operation. The University of Akron, like many large metropolitan universities, has a diverse student body. Non-traditional students are common, with the family, community and work commitments usually faced by these students. Most of our students work at least part-time, and many of our students, especially at the graduate level, are employed full time and take classes in the evening. With classes scheduled from 7 AM

until 11 PM, attending meetings of a student organization on a regular and consistent basis is problematic for many students and subject to changes in work or family commitments. To maximize the opportunity for student participation in the educational benefits of the Grant, the fund is managed as a part of the portfolio management classes in the Department of Finance.

II. COURSE STRUCTURE

The student-managed investment fund was established with an initial grant of \$50,000 from Oak Associates Ltd. An undergraduate portfolio management class manages the fund in the fall semester followed by an MBA portfolio management class in the spring semester. All students are required to have a one-semester investments course as a pre-requisite to the portfolio management class. The students therefore begin the portfolio management course with a solid background in investments. The class is broken into teams of three to four students. The first assignment is for each team to prepare and present an evaluation of the management of the fund by previous classes. Each team then develops a major written proposal for the future investment of the fund and makes a formal presentation of their proposal to the rest of the class. The class, acting as an investment committee, then selects one team to implement their investment proposal for the semester. The major written proposal selected for implementation by the class provides a historical record of the investment philosophy, strategy, goals and logic of previous fund managers.

Developing and presenting this proposal for investing the Oak Grant funds constitutes about 50 percent of the course. Twenty percent of the course grade depends on student peer evaluation of both the team's proposal and the student's activities as a team member. The Oak Grant gives the students practical experience in portfolio construction, management and evaluation by managing real money on a real-time basis.

The nature of the Oak Grant requires that the students be completely responsible for security selection and portfolio construction. This encourages the development of the students' creativity and innovation in problem solving in a group setting and in a very complex real world environment. The Oak Grant and The University of Akron Board of Trustees Resolution governing the use of the funds place only the most general limitations on the students' management of the funds and restrict the instructor's participation to a general teaching role in the course.

III. EDUCATIONAL OPPORTUNITIES

The objectives of the initial grant are to allow students to learn about investing on a real-time basis with real money and to have performance evaluated both on an absolute basis and relative to (currently ten) other institutions with similar grants. In addition, managing the grant funds facilitates and encourages a number of other important educational outcomes and experiences.

The students develop interpersonal skills such as teamwork, leadership, negotiation and an appreciation of cultural diversity through working in diverse teams to develop and present an investment proposal. Teams frequently consist of both sexes, several races and

several countries of origin. Members of the team often have very different and strongly held views on such topics as market efficiency, fundamental and technical analysis and international diversification. The experience of culturally diverse teams working through differences of viewpoint and belief to arrive at a unified proposal is an interesting and invaluable educational experience.

The students' oral and written communications skills are developed through both a minor project—the evaluation of previous management via a short written report and a short group presentation—and a major project, the investment proposal consisting of a substantial written report and group presentation of the proposal. This proposal will be evaluated by both the students' peers and instructor in determining the course grade, but only the students' peers decide which proposal will actually be implemented.

The students' analytical skills are challenged and developed in several ways. The basic problem of constructing an investment portfolio in the real world is a very complex problem requiring extensive data analysis. The students must select from more than ten thousand different stock, bond, money market and investment company investments for the funds. In the end, they will probably select about one out of every thousand potential investment vehicles. Computer skills are developed through use of the S & P PC Plus CD-ROM database (which is networked through the computer lab) to obtain and screen historical financial data on potential investments and through use of the Internet to obtain current information on a wide variety of subjects. Internet applications range from obtaining current stock quotes through on-line sources and current financial information from sources such as the Security Exchange Commission's EDGAR database to obtaining current economic information from such sources as the St. Louis Federal Reserve Bank's Internet site. This project gives the students substantial experiential learning in the management of both the latest technology and the information obtained through that technology. In the end, the results of the students' analysis are applied in the real world and have real monetary consequences.

The students' global/international orientation and awareness are developed in several ways. By the very nature of the problem, international diversification of the investment portfolio is an integral part of the problem. This requires a knowledge and awareness of all of the major financial markets in the world. In addition, the students often have the chance to develop an increased global/international orientation by working in a team with students from another country or culture. The students will ultimately have the experience of evaluating proposals developed and presented by students from another country or culture.

Managing the Oak Grant funds allows integration across functional areas in the College of Business. For approximately one week of the course, a member of the tax accounting faculty will teach about recent changes in tax law, which affect portfolio management. For a similar time period, a member of the marketing faculty will teach about selling financial services since the student's investment proposal and presentation really constitutes an exercise in selling investment management skills to the rest of the class. A member of the business law faculty will provide an extensive exposure to legal and ethical standards and responsibilities in the course. The legal and ethical topics covered range from very general ethical standards to very specific legal and ethical standards applicable to securities management and trading. The topics are emphasized through extensive discussion of current real world examples such as the stock trading profits from possible insider trading by a local medical researcher.

Finally, the Oak Grants provide a unique form of competition among the ten colleges and universities that have currently received grants from Oak Associates Ltd. The college with the highest returns on its investments each year receives an additional \$15,000. The second and third highest receives an additional \$10,000 or \$5,000 respectively. This inter-collegiate competition adds another layer of reality not found in most other student-managed investment funds. The real world of investment management is a very competitive business.

IV. CONCLUSION

A student-managed investment fund can provide students with experience managing real money on a real-time basis with real evaluation. In a properly structured course, a student-managed investment fund can provide the framework for a wide range of other valuable educational experiences and outcomes. Students can learn to work in culturally diverse teams to reach specific objectives. Students can sharpen and find realistic application for their analytic and computer skills. Students can learn to integrate knowledge and skills across academic boundaries. Students can use their oral and written communication skills in attempting to market their investment management skills. Competing with other teams and other colleges and universities in the investment performance competition will encourage an entrepreneurial spirit that will be of great value to the students in their business careers.

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