City University of Hong Kong

Information on a Course
offered by Department of Economics & Finance
with effect from Semester B in 2014-2015

Part I

Course Title : Trading Room Workshop

Course Code : EF4323

Course Duration : one semester

Credit Units : 3

Level : B4

Medium of Instruction : English

Prerequisites : CB3410 Financial Management or FB3410 Financial Management
EF3320 Security Analysis and Portfolio Management

Precursors : EF3333 Financial Systems, Markets and Instruments

Equivalent Courses : Nil

Exclusive Courses : EF4322 Trading Room Workshop

Part II

Course Aims

Several studies, such as Flanegin and Rudd (2005), suggested that the divergence in subjects covered in university finance programs and those used by practitioners on a fairly consistent basis in their jobs do exist. This course aims to bridge the gap. To achieve the objective, the course is divided into four major parts. The first part of the course describes the various activities that go on inside a trading room. The second part of the course is technical analysis. The third part of the course is trading simulation using the Financial Trading System (FTS). The forth part is group project.

This course aims to provide students with:

- actual trading experience to supplement various segments of an investment course via experimental learning and simulated trading;
- the ability to apply finance theories to actual trading in different financial market;
- the ability to utilize popular professional databases to enhance financial analysis;
- an understanding of how insights of behavioural finance complement the traditional finance paradigm; and
- an understanding of major applications of technical analysis.

Course Intended Learning Outcomes (CILOs)

Upon successful completion of this course, students should be able to:

No.	CILOs	Weighting (if applicable)
1	Apply the finance theories to make informed investment decisions, such as identifying arbitrage opportunities, managing risk by hedging and portfolio management, and using financial leverage effectively, in laboratory trading environment; identify the activities that go on inside a trading room, the job descriptions and skill sets required for practitioners.	30 %
2	Identify key differences between traditional finance and behavioural finance frameworks, including irrationality and limits to arbitrage, and understand key psychological biases that affect investment decision-makings; identify and apply finance theories to make informed investment decisions, such as identifying arbitrage opportunities and using financial leverage effectively, in a trading environment.	30 %
3	Explain and apply technical analysis in financial markets; learn the technique of technical analysis for securities.	20 %
4	Critically evaluate the effectiveness of technical analysis; design a trading system and critically evaluate its effectiveness.	10 %
5	Utilise popular professional databases and electronic trading platform, to enhance financial analysis; learn to trade using Financial Trading System.	10 %

Teaching and Learning Activities (TLAs)

(Indicative of likely activities and tasks designed to facilitate students' achievement of the CILOs. Final details will be provided to students in their first week of attendance in this course.)

CILO No.	TLAs	Hours/week (if applicable)
CILO 1-5	Simulated trading games and after-game discussions (FTS system) Students will apply finance theories in making informed investment decisions, and apply technical analysis in trading simulation. Students will discover for themselves effective actions, alternatives and solutions to different situations in trading simulations and apply the knowledge and skills they acquired in a traditional classroom.	3 weeks, 3 hours per week
	In-class discussions Students will discover technical analysis and theories of behaviour finance through case analysis and in-class discussions. An in-depth discussion will encourage students to integrate the concepts and knowledge they acquired.	4 weeks, 3 hours per week
	Group Project and Presentation (Trading Simulation) The project is an empirical test of traditional technical trading rules of self-developed automatic trading systems. With the hypothetical 500,000 HKD, students in a group will develop a portfolio of liquid securities such as FX, stocks, stock indices, and commodities. Students are to identify trading signals and record the realistic prices to execute the trade. Students are required to keep a trading log for each week. They will submit an in-depth study report with an executive summary. The report should focus on selected chart patterns or technical indicators. The students will then give a 15-minute presentation of the report. The presentation will help students practise their presentation skills and acquire deep understanding of the trading techniques and behavioural finance.	1 week, 3 hours
	Demonstration and self practice by using professional financial databases Professional financial databases will be used to help students understand market conventions for equity trading. Students have to understand the prevalent trading quotes; explore and interpret popular technical analysis indicators; and practice buying/selling trading tickets. This encourages students' acquisition and application of research skills, and creation of new knowledge.	1 week, 3 hours

Summary of how DEC is incorporated in Assessment Tasks, and Teaching and Learning Activities (TLAs)

DEC Elements	Assessment Tasks and TLAs
Develop students' attitude to discover and innovate	In-class discussions
Develop students' abilities to discover and innovate, accomplishments of Discovery and Innovation	Empirical trading project
Develop students' attitude to discover and innovate, and their abilities to discover and innovate	Trading Simulation

Assessment Tasks/Activities

(Indicative of likely activities and tasks designed to assess how well the students achieve the CILOs.   Final details will be provided to students in their first week of attendance in this course.)

Group Project of Trading simulation	50%
FTS system trading games	30%
Participation and Attendance	20%
Total	100%

Grading of Student Achievement

Letter Grade	Grade Points	Grade Definitions	Remarks
A+ A A-	4.3 4.0 3.7	Excellent	On top of B: - Apply the finance theories effectively in most trading cases. - Forming own automatic trading system logically based on combinations of different technical trading rules and self-created or modified technical indicators. - Able to generalize the testing results and to yield statistically significant findings. - Able to apply behavioural finance findings to explain finance anomalies. - Students have demonstrated very strong overall ability to discover and innovate, and showed very strong evidence of accomplishments of discovery.
B+ B B-	3.3 3.0 2.7	Good	On top of C: - Apply the finance theories in some trading cases. - Apply the individual technical trading rules collectively and logically. - Able to perform an evaluation of the performances of technical trading rules based on a more sophisticated framework, such as hypothesis testing based on statistical methods. - Utilize the built-in analysis models of the financial databases. - Able to explain key psychological biases that affect investment decisions. - Students have demonstrated strong overall ability to discover and innovate, and showed strong evidence of accomplishments of discovery.

C+	2.3	Adequate	On top of D:
C	2.0		- Make informed trading decisions trading games.
C-	1.7		- Apply the individual technical trading rules fragmentally.
			- Able to perform an evaluation of the performances of technical trading rules based on simple framework, such as a case study.
			- Utilize the more advanced functions of the financial databases.
			- Able to identify key differences between traditional finance and behavioural finance frameworks.
			- Students have demonstrated some ability to discover and innovate, and showed satisfactory evidence of accomplishments of discovery.
D	1.0	Marginal	- Realize how a financial (secondary) market works and able to trade independently in trading games.
			- Recognize the basic uses of individual technical indicators.
			- Recognize how to evaluate the performances of technical analysis.
			- Utilize the most basic functions of the financial databases.
			- Students have demonstrated marginal ability to discover and innovate, and showed marginal evidence of accomplishments of discovery.
F	0.0	Failure	- Unable to recognize how a financial market works.
			- Unable to recognize the uses of individual technical indicators.
			- Unable to recognize how to evaluate the performances of technical analysis.
			- Unable to utilize the most basic functions of the financial databases.
			- Unable to identify key differences between traditional finance and behavioral finance frameworks.
			- Students have demonstrated little evidence of ability to discover and innovate, and showed little evidence of accomplishments of discovery.

Part III

Keyword Syllabus

Market Efficiency.
Portfolio Theory.
Valuation Models.
Derivatives.
Technical Analysis.
Behavioral Finance.

Recommended Reading

References

Larry Harris, Trading and Exchanges: Market Microstructure for Practitioners, Current Edition, Oxford University Press

John Teall, Financial Trading and Investing, Current Edition, Academic Press

Kirkpatrick, Charles D., and Dahlquist, Julie. R., Technical Analysis: The Complete Resource for Financial Market Technicians, FT Press, Pearson.

Pring, M., Technical Analysis Explained, McGraw Hill.

Shleifer, Andrei, Inefficient Markets: An Introduction to Behavioral Finance, Oxford University Press.

Shefrin, Hersh, Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing, Oxford University Press.

Thaler, Richard H. (ed.), Advances in Behavioral Finance, Vol. II, Princeton.

The Reuters Financial Training Series, The Reuters.

Bauer Jr. R. J., and Dahlquist, J R., Technical market indicators: analysis & performance, John Wiley & Sons, 1999.

Benninga, S., Principles of Finance with Excel, Oxford University Press, 2006.

Bulkowski, Thomas N., Encyclopedia of Chart Patterns, 2nd Edition, John Wiley & Sons, 2005.

Kirkpatrick, Charles D., and Dahlquist, Julie. R., Technical Analysis: The complete resource for financial market technicians, FT Press, Pearson, 2008.

Murphy, J., Technical Analysis of the Financial Markets: A comprehensive guide to trading methods and applications, New York Institute of Finance, 1999.

Pring, Martin J., Technical Analysis Explained, 4th Edition, McGraw-Hill, 2002.

Park, Cheol-Ho and Irwin, Scott H., The Profitability of Technical Analysis: A Review, AgMAS Project Research Report, 2004.

Nison. S., Japanese Candlestick Charting Techniques, New York Institute of Finance, 1991.

James Angel, L. Harris, and C. Spatt, Equity Trading in the 21st Century, Quarterly Journal of Finance

Jonathan Tse, X. Lin, and D. Vincent, High Frequency Trading – The Good, The Bad, and the Regulation, Credit Suisse.

Jonathan Tse, X. Lin, and D. Vincent, High Frequency Trading – Measurement, Detection and Response, Credit Suisse.

Online Resources

Financial Trading System www.ftsweb.net

Websites from the HKEx, SFC, Bloomberg, Reuters etc.

http://www.investopedia.com/
http://stockcharts.com/school/doku.php?id=chart_school
http://thepatternsite.com/
http://finance.yahoo.com/