

FINA/MANA 4397

Behavioral Finance

Team Project Assignment Packet

Instructor: Dale Rude

Fall Semester, 2002

Overview

The team project is a major part of the class. With two classmates, you will study some aspect of finance using a behavioral framework (such as the lens model) as a theoretical basis. Possible general topics include accessing the accuracy of "expert" predictions, the validity of commonly endorsed predictors. For further information, see the list of sample topics below and skim the sample project. Your team will spend a significant part of the first day of class working on the choice of a topic. If you would like to "try out" ideas for project topics before the class begins, send me an email.

Due Dates

Due Dates (each may be submitted before the due date):

List of Team Members: Friday, September 13

Proposal: Friday, September 20

Results Summary: Friday, October 18.

Critique of Entire Project Draft: you are required to submit a complete draft for critique. It is due by Friday, November 1. The critiqued draft will be returned to you on Monday, November 3.

Presentation Date: Friday, November 8.

Final Project Report Due Date: Friday, November 8.

Proposal

1. Negotiable General Parameters

- a) 4 or more judges
- b) 4 to 8 cues
- c) 100 judgments/judge

2. The written proposal should contain the following information:

- a) The problem: What is it? Why is it important? (Can be done in a short paragraph.)
- b) The outcome: What is the outcome that you will be studying?
- c) The judgment: What are the judgments that you will be collecting?
- d) The cues: How many cues? What are they? If any are categorical, indicate how many levels they will have. (To identify relevant cues, survey potential judges concerning which cues they use in this decision environment.)
- e) The sample of judges: How many judges? Who will the judges be? Why are they appropriate for this examination of the problem?
- f) The sample of scenarios: How many judgments will each judge make?

Presentation Guidelines

You will have 13 minutes for your presentation which will be timed. Use Power Point. Among the things which should be covered are:

1. What is the problem that you are addressing? Why is it important?
2. Why are the people in your sample well qualified (as a group) for participating in your study of the problem? What are your cues, judgment, and outcome? (Hint: a Power Point slide is a useful visual aid for presenting this.) How did you analyze the data?
3. What did you find? How accurate were your judges? (Hint: a Power Point slide summarizing each judge's results would be helpful.)
4. What does it mean? How can what you learned help to solve the problem that you addressed in the first part of your presentation? How should people in general who make these decisions do so (hint: use profiles of scenario most likely to produce a positive or negative judgment)?

What specific tips would you give each judge concerning how to improve their decision making performance? Briefly, what are some of the limitations of your project?

Sample Topics

1. The accuracy of Business Week's annual mutual fund predictions was assessed for four types of mutual funds: small company, equity, foreign, and growth. The relationships of the predictions and actual fund performance for the next year to the cues of turnover, risk, 5 year pre-tax rate of return, and P/E ration were measured.
2. The riskiness of employee retirement portfolios was predicted for 100 employees of a Houston firm. Cues included age, gender, tenure with company, and amount of retirement portfolio.
3. The performance of 100 company Initial Public Offerings was predicted using eight cues including offer price and underwriter characteristics. This is a sample project.
4. The direction of change in daily S&P 500 index was predicted using a) day of the week of the prediction date, b) S&P 500 performance during the week immediately preceding the prediction day, c) performance of the Nikkei 225 index during the day preceding the prediction day, and d) performance of the Lehman Brothers Long Bond index during the trading day prior to the date of prediction.

Assignment Format

1. Length. The final project report should be between 14 and 20 pages in length, excluding title page, references, and appendices. Figures and tables which appear in the main body of the text count toward the required length. Use (1) a 12 font, (2) double-spaced pages with one inch margins on top, bottom, and sides, and (3) at least 25 lines of text per page.
2. Headings. Use three levels of headings. Main headings will denote major sections of paper (e.g., executive summary, introduction) and should be centered on page. Second level headings should be

flush with left margin. Third level headings should be indented, placed at start of paragraphs, and underlined.

3. Double space (a) within and between paragraphs and (b) between paragraphs and headings.
4. Use page numbers. Type them in at bottom of page if necessary. Do not print them in by hand.
5. Use one font and one printer for entire project.
6. Use only one staple. (If necessary, go to Kinko's or Department of Management office in room 315 and use the long staples available there.) NO PAPER CLIPS, please.
7. Title should communicate the problem studied. "Team Project" isn't enough.
8. Use a new page to start each major section (e.g., introduction, results) but not minor sections.
9. Don't end a page with a heading. Don't place a single line on a page. Either add more text or edit to reduce length of the section by a line. Use the exact same heading style as is in the sample project.
10. In my critique, I will use the term "tighten up writing." It means that a section does not flow well and rambles or wanders. Work on the structure and flow of offending sections.
11. Proofread very carefully. One point will be deducted for every three syntax errors.

Parts of Report

Executive Summary

1. Most important: the problem should drive the executive summary. This section should give an overview of your project and your findings. It should be understandable to an intelligent layperson that has not read the entire report. Maximum length is two pages. Often, it works best to write this section last.
2. In the Executive Summary, comment on the usefulness of the cues as a group and on the usefulness of individual cues. (After reading it, I should know whether the cues are useful, which ones to use, and how to use the cues in the future.

Introduction

1. Include a clear statement of purpose. Justify your project by describing problem that you are addressing, why it is important, and justifying that your approach is appropriate. The problem should drive this section. What is the underlying problem? Why is it important? How will this project generate useful information and recommendations regarding this problem? In a short paragraph at the conclusion of this section, overview the rest of the written project.

Description of Procedures.

1. Describe subjects, cues, judgements, outcomes, data collection procedures, and statistical analysis procedures.
2. Describe how cues, judgments, and outcomes were coded.

Results

1. Present findings. See sample project for a useful model.
2. Put the overall results first in the results section.
3. Refer to appendices in the text. Example: See Appendix A for cue means, standard deviations, and intercorrelations. See Appendix B for summaries of judge performances.
4. If you have a dichotomous judgment and outcome, drop the judgment and outcome standard deviation from text and appendices.

Conclusion

1. The problem should drive the conclusion section. Summarize what you have done and include clear statement of your findings. Most important part of report: relate your findings to problem that you presented in introduction. What did you learn that relates to problem? What should be done about problem given your results?
2. In the conclusion/discussion section, follow the sample project.
 - a) In the first section, make general prescriptions for people who might be making these judgments.
 - b) In the second section, make a separate subsection for each judge. In it, critique each judge. In para one of the subsection, discuss the overall performance of the judge (sum of abs diff and performance relative to the other judges) and the mean and standard deviation. In the second para of the subsection, discuss the achievement index and how to improve it by changing consistency and/or cue utilization coefficients.
 - c) In the third section, interpret your findings in light of the efficient market hypothesis. Are your findings an anomaly? If so, could investors make money by exploiting them?
 - d) In the fourth section, discuss potential problems in the study and how you would change it if doing it over.

Appendices

1. Introduce the appendices section with a page separating the main text from them which has the word Appendices centered on it.
2. The order of the appendices should be the same order as they are discussed in the text. This means that the appendix containing the summary of cue means, standard deviations, and intercorrelations for each decision environment comes before the appendix containing analyses for individual judges. Label

the first Appendix I or Appendix A and the second Appendix II or Appendix B. Refer to the appendices by name in text (e.g., Appendix I).

3. In the first appendix, report one set of cue means, standard deviations, and intercorrelations for each decision environment that you have used.

Evaluation

1. Dimensions of evaluation (see evaluation sheets below)

Class presentation of team project

Executive summary (readability for intelligent layperson, quality)

Quality of overall theme (creativity, relevance, appropriateness)

Description of procedures

Quality of project execution

Presentation and interpretation of findings, results, and conclusions

Syntax (punctuation, spelling, etc.) and organization

2. Members will rate one another concerning their relative contributions to the project. Members will submit a description of their contributions to the project. Grade received will depend upon team project grade and relative contribution to the project.

Evaluation

Names: _____

Presentation 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

Quality of Theme 1 2 3 4 5

Executive Summary 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

Introduction 1 2 3 4 5 6 7 8 9 10

Procedures 1 2 3 4 5 6 7 8 9 10

Results 1 2 3 4 5 6 7 8 9 10

Conclusions 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

Syntax 1 2 3 4 5

Organization 1 2 3 4 5 6 7 8 9 10

Division of Labor Form

In the blanks below, indicate the grade each person should receive relative to the project grade (assign a + for a higher grade, 0 for the same grade, - for a lower grade.) If you do not turn in a division of labor form, grades will be determined using the division of labor forms submitted by your teammates. After project grades are assigned, any team member will be allowed to read your team's division of labor forms.

Note: Not everyone can get a higher grade than the project receives.

Your Name	Names of Other Team Members

Grade relative
to others:

Below and on the back of this sheet, summarize what every team member did (including you). If differential grades are requested by one or more team members, differential grade decisions will be based upon your team's descriptions of individual members' contributions. If you don't provide this information and other team members do, their descriptions will be the basis for differential grade decisions.