TRADER HANDBOOK
Competiton Guidelines & Case briefs

*These cases were developed by Rotman Interactive Trader by the Rotman School of Management. Liability Trading 3 and Commodity Trading 1 were employed and/or modified. http://rit.rotman.utoronto.ca/

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Important Information

The Competition

There are two rounds of trading, each round representing a unique situation, with different risks and opportunities:

**Round 1:** Liability Trading  
**Round 2:** Commodity Trading

Each team is made up of three members and each team member must participate in at least one trading round. Each trading round will be 1 hour in length. Each case consists of 5 sub-heats of ~8 minutes each. Upon completion of a sub-heat, there will be an approximate 2-minute break while scores are saved and verified. Traders may leave during this break, but it is their responsibility to return before the break ends.

The integrity of the market is based on the participants of that market. It is highly suggested that all participants be diligent about maintaining market liquidity. In the event of "error-trades" occurring, where a price changes dramatically due to a lack of liquidity, trades will be broken. Parties that benefit from these abnormal trades will have their profits reversed, parties that have losses from these trades will retain them. In the event of a workstation failure, The BRIDGE staff will be present to assist you. In the event of a network/power/server failure where 10% or more of the workstations are disconnected due to technical reasons, the case sub-heat will be rerun.

For news and updates on the competition, please refer to the website:

[http://guides.library.utoronto.ca/UTSCTrading](http://guides.library.utoronto.ca/UTSCTrading)

**Training Sessions (The BRIDGE, IC108)**

<table>
<thead>
<tr>
<th>Training Session</th>
<th>Date</th>
<th>Time</th>
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<tbody>
<tr>
<td>Liability Trading Case</td>
<td>Tuesday, Sept 18(^{th}) @ 1 PM – 3 PM</td>
<td></td>
</tr>
<tr>
<td>Commodity Trading Case</td>
<td>Thursday, Sept 20(^{th}) @ 3 PM – 5 PM</td>
<td></td>
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<tr>
<td>All Cases</td>
<td>Wednesday, Sept 26(^{th}) @ 4 PM – 6 PM</td>
<td></td>
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</tbody>
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Practice Servers

Practice servers will be made available starting on Thursday, Sept 13th at 11:59 pm EST and will operate 24 hours a day 7 days a week until the start of the competition. Information on how to download and install the RIT v2.0 Client is available on the RIT website (http://rit.rotman.utoronto.ca/software.asp) or the software is available in The BRIDGE Lab (IC108).

Practice server: 142.1.29.81
Liability Port: 20000 Commodity Port: 10000

Remember that you can type in any username and password and it will automatically create an account if it does not exist. If you have forgotten your password or the username appears to be taken, simply choose a new username and password to create a new account.

Rankings

Performance of each sub-heat is ranked by profit & loss (P&L). Trading round results are ranked by averaging sub-heat rankings, not averaging overall P&L. Overall team rankings are calculated by taking the average ranking of each round.
**Dress Code**

This is a professional business competition, so participants are expected to dress in business formal attire. Participants can be turned away if they are not dressed appropriately.

**Competition Day Agenda**

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1:30 PM</td>
<td>Registration begins</td>
<td>The BRIDGE (IC110)</td>
</tr>
<tr>
<td>3:45 PM</td>
<td>Deadline for team registration</td>
<td>The BRIDGE (IC110)</td>
</tr>
<tr>
<td>4:00 PM</td>
<td>Round 1: Liability Trading begins</td>
<td>The BRIDGE Lab (IC108)</td>
</tr>
<tr>
<td>5:00 PM</td>
<td>Round 2: Commodity Trading begins</td>
<td>The BRIDGE Lab (IC108)</td>
</tr>
<tr>
<td>6:00 PM</td>
<td>Networking and Refreshments</td>
<td>The BRIDGE (IC110)</td>
</tr>
<tr>
<td>6:30 PM</td>
<td>Awards and Closing Remarks</td>
<td>The BRIDGE (IC110)</td>
</tr>
</tbody>
</table>

*Traders must report to the registration desk at least 10 mins prior to case start time.*
Case Brief – Round 1: Liability Trading

Morningside Investment Co. has entered a market with a high trading spread. This market is under junior-level market structures as there will be higher gap between each order’s price level.

Your responsibility is to review block trade requests for two different stocks, Granite Incorporated (GRAN), and Marble Enterprises (MRBL). Institutional orders will be routed directly to your desk. These orders for GRAN or MRBL will often be to buy shares from you at a premium to the market price, or sell shares to you at a discount to the market price. Note that this may not always be the case. The orders will be block-sized trades, and it is completely up to you whether you accept or decline the orders.

As the liability book manager, you will be facing more challenging market conditions as trading becomes more costly due to increases in spread. Your risk management team has provided you with the following memo:

*Effective immediately, trading limits will be applied on a portfolio basis instead of a single position basis. Traders are given a limit of 100,000 shares net or 250,000 shares gross. Net limits are calculated by taking the sum of your positions – long and short positions will cancel each other out. Gross limits are calculated by taking the sum of the absolute value of your positions, which means short and long positions are additive. The following are a few examples:*

<table>
<thead>
<tr>
<th>GRAN</th>
<th>MRBL</th>
<th>Net</th>
<th>Gross</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long 50,000</td>
<td>Long 25,000</td>
<td>75,000/100,000</td>
<td>75,000/250,000</td>
</tr>
<tr>
<td>Long 25,000</td>
<td>Short 25,000</td>
<td>0/100,000</td>
<td>50,000/250,000</td>
</tr>
<tr>
<td>Short (35,000)</td>
<td>Long 125,000</td>
<td>90,000/100,000</td>
<td>160,000/250,000</td>
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</table>

Throughout the trading case, you will receive 9 block trades and your objective is to accept the trades that provide an appropriate (and profitable) spread on the market price, then use market, limit, or marketable limit orders to unwind the positions. Given that you have no
information pertaining to the direction of the market, your objective should not be to speculate the direction of the price. Even if a block trade offer may seem profitable, your risk management, ability to appropriately unwind the trades and manage your liquidity risk will determine your overall P/L.

**Instructions:**

During the simulation, you will receive 9 institutional orders (tenders) throughout the duration of the 8 minute trading simulation. The orders will take on the following form: 
“An institution would like to SELL 75,000 shares of GRAN to you at a price of $9.75. Would you like to BUY the shares from them?” (Accept/Decline).

Your responsibility is to evaluate the order, accept or decline it, and manage the risk of your trading positions appropriately. You have been given a net trading limit of 100,000 shares and a gross trading limit of 250,000 shares. There is a maximum order size of 25,000 shares for GRAN, and 10,000 shares for MRBL when submitting a single order.

The 8 minutes of trading will simulate one week of calendar time. In this time, the stocks are expected to move as much as 10-20% up or down.

**Discussion Questions and Follow Up:**

1. Should you automatically accept all institutional orders?
2. When evaluating an institutional order, what information is important to evaluate whether or not to accept or decline the order?
3. What information may be gleaned from the limit order book when executing your strategy? What types of strategies can be employed to exploit this information?
Case Brief – Round 2: Commodity Trading

You’ve recently been promoted and are now in charge of the crude oil trading desk at a medium-sized energy hedge fund. Your fund’s mandate is to generate trading profits by taking long and short positions in crude oil, based on your micro and macro view of geopolitical and crude-related news events.

Since your hedge fund just takes financial (speculative) positions on crude oil, you do not have access to any physical oil infrastructure (storage tanks, pipelines, tankers, etc.). Instead, your fund solely trades futures contracts for Crude Oil, which are a near-perfect proxy for crude oil.

From your past experience, you’ve found that the market is primarily driven by news releases that provide insight into the future supply and demand for crude, and by government data releases that report the current actual supply and demand for crude. Forecasting how the market will react to these two types of releases is essential to generating profits in this market.

The Department of Energy (DOE) releases their numbers once per week on Wednesdays. Running various regressions on historical data, you have found that the price sensitivity of crude to crude supply shocks is approximately $0.10 per million barrels. That is, if there are 1 million more barrels of crude in storage than expected, the price will fall by approximately $0.10. Vice versa if there is a 1 million barrel shortfall.

Crude oil reports are segregated into three categories, Crude, Gas, and Distillate. All three appear to have the same effect on the price of crude.

Macro-economic, geopolitical, and crude-related news effects are much more difficult to quantify. With each release, the market typically reacts based on the following three factors:

1. Is the effect (disruption in supplies, extra use of crude, etc.) severe or minor?
2. Is the effect going to happen immediately or at a later date, if so how much later?
3. Is the effect going to have a long duration, or a short duration?

These three main factors will drive price changes with markets typically being more sensitive to severe, immediate, and long-duration effects, and less sensitive to minor, later dated, short
duration effects. From your experience, significant effects can cause prices to move as much as $3. Since the crude market is very efficient, prices will always reflect information very shortly after news has been released (within 60 seconds of trading time).

You will be trading for a month of calendar time and your goal is to generate trading profits by going long or short-selling crude oil when you believe market prices will appreciate or decline.

**Instructions:**

In this trading simulation, you can purchase or sell futures contracts for delivery of crude oil (CL-1F). If you sell more contracts than you currently own (have a negative position), you will be short and be required to buy-back futures at the end of the month. If you buy more contracts than you have sold, you will be long and will be required to sell futures at the end of the month. Each contract represents 1000 barrels of crude oil.

You have a net trading limit of 100 contracts. This means that you cannot have a position larger than 100 contracts long or -100 contracts short. There is a fee of $2.5/contract.

The case represents 1 month (4 weeks) of calendar time, and that month is simulated over 8 minutes of trading time (2 minutes per week).

**Discussion Questions and Follow Up:**

1. Why is it a good idea to scale your position, and have larger positions when you believe there will be a large move in crude, and have smaller positions when you believe there will be a small move in crude?
2. What would happen if your long (or short) futures contracts weren’t closed out automatically for you at the end of the month (at the delivery date)?
3. What is the profit (or loss) generated on a position that is long 5 contracts @ $80.00, when the price of crude falls to $75.00?
4. If there was an increase of 5 million barrels of crude in storage for a particular week, why is the price reaction different given an expectation that the increase would be 4 million barrels versus 6 million barrels?