

EF4323: TRADING ROOM WORKSHOP

Effective Term

Semester A 2022/23

Part I Course Overview

Course Title

Trading Room Workshop

Subject Code

EF - Economics and Finance

Course Number

4323

Academic Unit

Economics and Finance (EF)

College/School

College of Business (CB)

Course Duration

One Semester

Credit Units

3

Level

B1, B2, B3, B4 - Bachelor's Degree

Medium of Instruction

English

Medium of Assessment

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 Details

Abstract

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 fourth 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)

CILOs	Weighting (if app.)	DEC-A1	DEC-A2	DEC-A3
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	x	x	x
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	x	x	x
3 Explain and apply technical analysis in financial markets; learn the technique of technical analysis for securities.	20	x	x	x
4 Critically evaluate the effectiveness of technical analysis; design a trading system and critically evaluate its effectiveness.	10	x	x	x
5 Utilise popular professional databases and electronic trading platform, to enhance financial analysis; learn to trade using Financial Trading System.	10	x	x	x

A1: Attitude

Develop an attitude of discovery/innovation/creativity, as demonstrated by students possessing a strong sense of curiosity, asking questions actively, challenging assumptions or engaging in inquiry together with teachers.

A2: Ability

Develop the ability/skill needed to discover/innovate/create, as demonstrated by students possessing critical thinking skills to assess ideas, acquiring research skills, synthesizing knowledge across disciplines or applying academic knowledge to real-life problems.

A3: Accomplishments

3	Group Project and Presentation (Trading Simulation)	<p>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.</p>	2, 3, 4	"1 week, 3 hours"
4	Demonstration and self practice by using professional financial databases	<p>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.</p>	1, 2, 3, 4, 5	1 week, 3 hours

Assessment Tasks / Activities (ATs)

ATs		CILO No.	Weighting (%)	Remarks (e.g. Parameter for GenAI use)
1	Group Project of Trading simulation	1, 2, 3, 4, 5	50	
2	FTS system trading games	1, 2, 3, 4, 5	30	
3	Participation and Attendance		20	

Continuous Assessment (%)

100

Examination (%)

0

Assessment Rubrics (AR)**Assessment Task**

Group Project of Trading simulation

Criterion

Effective trading strategy; Successful VBA coding; High quality report; Informative presentation

Excellent (A+, A, A-)

Trading strategy generates good Sharpe ratio; Efficient VBA coding; Report is accurate and informative; Very good presentation

Good (B+, B, B-)

Trading strategy generates OK Sharpe ratio; Effective VBA coding; Good Report; Good presentation

Fair (C+, C, C-)

Trading strategy generates some profit; OK VBA coding; Report is OK; OK presentation

Marginal (D)

Trading strategy generates insignificant return; VBA code just work; Report is readable; OK presentation

Failure (F)

Trading strategy losses money; VBA code doesn't work; Report is painful to read; Bad presentation

Assessment Task

FTS system trading games

Criterion

Effective reaction to market information and the use of profitable trading actions

Excellent (A+, A, A-)

Top 10% trading profit

Good (B+, B, B-)

Top 11% to 40% trading profit

Fair (C+, C, C-)

Top 41% to 70% trading profit

Marginal (D)

Top 71% to 90% trading profit

Failure (F)

Bottom 10% trading profit

Assessment Task

Participation and Attendance

Criterion

Show up on time and be proactive in class

Excellent (A+, A, A-)

Show up > 90% Very active in class

Good (B+, B, B-)

Show up > 80% More active than average student

Fair (C+, C, C-)

Show up > 70% Somewhat active

Marginal (D)

Show up > 70% Marginally active

Failure (F)

Show up < 70% Not active

Part III Other Information**Keyword Syllabus**

1. Market Efficiency.
2. Portfolio Theory.
3. Valuation Models.
4. Derivatives.
5. Technical Analysis.
6. Behavioral Finance.

Reading List**Compulsory Readings**

	Title
1	Larry Harris, Trading and Exchanges: Market Microstructure for Practitioners, Current Edition, Oxford University Press
2	John Teall, Financial Trading and Investing, Current Edition, Academic Press
3	Kirkpatrick, Charles D., and Dahlquist, Julie. R., Technical Analysis: The Complete Resource for Financial Market Technicians, FT Press, Pearson.
4	Pring, M., Technical Analysis Explained, McGraw Hill.
5	Shleifer, Andrei, Inefficient Markets: An Introduction to Behavioral Finance, Oxford University Press.

6	Shefrin, Hersh, Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing, Oxford University Press.
7	Thaler, Richard H. (ed.), Advances in Behavioral Finance, Vol. II, Princeton.
8	The Reuters Financial Training Series, The Reuters.
9	Bauer Jr. R. J., and Dahlquist, J R., Technical market indicators: analysis & performance, John Wiley & Sons, 1999.
10	Benninga, S., Principles of Finance with Excel, Oxford University Press, 2006.
11	Bulkowski, Thomas N., Encyclopedia of Chart Patterns, 2nd Edition, John Wiley & Sons, 2005.
12	Kirkpatrick, Charles D., and Dahlquist, Julie. R., Technical Analysis: The complete resource for financial market technicians, FT Press, Pearson, 2008.
13	Murphy, J., Technical Analysis of the Financial Markets: A comprehensive guide to trading methods and applications, New York Institute of Finance, 1999.
14	Pring, Martin J., Technical Analysis Explained, 4th Edition, McGraw-Hill, 2002.
15	Park, Cheol-Ho and Irwin, Scott H., The Profitability of Technical Analysis: A Review, AgMAS Project Research Report, 2004.
16	Nison. S., Japanese Candlestick Charting Techniques, New York Institute of Finance, 1991.
17	James Angel, L. Harris, and C. Spatt, Equity Trading in the 21st Century, Quarterly Journal of Finance
18	Jonathan Tse, X. Lin, and D. Vincent, High Frequency Trading – The Good, The Bad, and the Regulation, Credit Suisse.
19	Jonathan Tse, X. Lin, and D. Vincent, High Frequency Trading – Measurement, Detection and Response, Credit Suisse.

Additional Readings

	Title
1	Financial Trading System www.ftsweb.net
2	Websites from the HKEx, SFC, Bloomberg, Reuters etc.
3	http://www.investopedia.com/
4	http://stockcharts.com/school/doku.php?id=chart_school
5	http://thepatternsite.com/
6	http://finance.yahoo.com/