



Honors Research Assistant Program

Title: An Empirical Study of Portfolio Managers' Consistency and Momentum

Description of the Research: Adherents to the Efficient Market Hypothesis conclude that the aggregate impact of investors upon securities prices leaves securities very efficiently priced at any point in time, making it nearly impossible for portfolio managers to consistently "beat the market" and thereby outperform their competitors. Some research has shown, however, that a particular portfolio's history can, in fact, be predictive of future performance. This research project is designed to determine (a) the extent to which investment strategies based on portfolio prior performance can be successful, and (b) the degree to which temporary price patterns are extended by speculators attempting to "join" more fundamentally motivated investors whose buy and sell orders usually initiate the short term price trends.

Responsibilities of the Student: This study will draw upon the results from research conducted during the 2008-2009 school year as well as new outcomes from the related Project A. In Project B the student will focus upon portfolios that meet various selection criteria and analyze the predictability of subsequent results. During the 2008-2009 academic year, a simulation model was developed in the Matlab programming language. The student will refine and extend the existing model and participate in the writing of a research report. In a possible second phase of this study, we will use data mining techniques developed in Project A to identify price movement patterns that appear to precede significant changes in an index's direction, and test them for consistency and predictability. This research can be expected to reinforce the Hypothesis to some degree while testing assertions that short-term opportunities develop as prices move to new levels of equilibrium.

Approximate Number of Hours/Schedule: The student will average ten hours of research and analysis work each week. This includes contact with the faculty advisor as needed to reinforce the validity of the analytical process applied and to assure steady progress in accomplishing the objectives of the study. The schedule is flexible to accommodate other time demands.

Qualifications: Student will need some programming skills with Java or C++ and the ability to learn Matlab as well as some course work in calculus and statistics.