

# THE INVESTMENT CHALLENGE™

## THE BRANDES INSTITUTE

**The Investment Challenge™ is a portfolio simulation contest designed to educate and entertain participants. The Investment Challenge contest is based on a straightforward educational principle: “I hear and I forget. I see and I remember. I do and I understand.”**

By turning participants into global portfolio managers in a simulated, competitive team environment, the Investment Challenge contest demonstrates the pressures of decision-making in fast-moving global markets, while teaching the benefits of a clear investment process and (of course) the importance of a disciplined value approach!



Participants in a Client Conference Investment Challenge

The Investment Challenge contest was first presented at a pension fund conference in 1987, and has been featured since then at many industry and educational conferences and seminars. Reformulated in 2002 under the banner of the Brandes Institute, a division of Brandes Investment Partners, L.P., the Investment Challenge is now web-based, and suitable for either “in-person” conference events or “remote location” Internet contests.

### **ACCEPTING THE CHALLENGE: An Institutional Client Conference Event**

All eyes on the market floor stared at a large screen. Suddenly, a new set of numbers flashed across the wall-sized projection screen, igniting a flurry of activity. Cheers and groans erupted across the floor. Traders raced to fill out trade tickets, and teams huddled around their PC monitors to review updated portfolio information.

About 2,500 miles west of Wall Street, the Brandes Institute’s Investment Challenge enthralled its own floor of investors when conducted at the Brandes Investment Partners® institutional client conference. The web-based competition, designed to educate participants through simulation of the pressures of the often-hectic pace of actual portfolio management, featured teams of portfolio managers, each comprised of conference attendees. Participants selected and traded stocks from a universe of 40 global securities after comparing the stocks’ prices, estimated intrinsic values, margins of safety, and price-to-earnings ratios. Stock returns were based on actual historical price performance for an undisclosed, prior period.

With the Brandes Institute’s emphasis on real-world application of investment theory, the Investment Challenge featured many wrinkles to enhance the simulation. A six-strong trading desk offered additional chances to profit from active trading on three select stocks. Periodic headlines from the “mystery” time period provided hints on the date. Portfolios were updated on each team’s PC monitor immediately after each trade.

An hour later, used trade tickets littered the floor of the Four Season’s ballroom, and two of our competing teams had prevailed in the five-year “virtual” Investment Challenge. Participants declared the event a successful and fun learning experience (especially the ones going home with the prizes).

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## What You Need To Know

**T**he Investment Challenge contest is a global equity market simulation, with a prize\* awarded to the team accumulating the highest total portfolio over the course of the competition.

### Scenario:

“Forecasting is difficult...especially forecasting the future.” To make the forecasting easier, the Investment Challenge contest is played using actual events and prices that have occurred at some date in the past. In order not to make things too easy, teams will not be told what date this is. (Part of the team’s “Challenge” is to deduce the date, and therefore improve their chances.) The starting date can be the beginning of any month after 1986.

### The Challenge:

Participants will be divided into teams, with each assigned a notional portfolio to be managed over the duration of the Investment Challenge. Teams will be given basic information on the stocks and financial environment, so they can use fundamental analysis and/or their knowledge of history to figure out what year they’re in (which may or may not help them decide what portfolio action to take.) The information includes the “intrinsic value” and hence “margin of safety” for each stock.

NOTE: All the historic information supplied is accurate, except the intrinsic values, which have been created specifically for the Investment Challenge. These intrinsic values are for illustration only and were not those used by Brandes for those stocks at any point in time.

### Starting Portfolio:

The Investment Challenge contest offers a universe of 40 stocks from which to choose. Each team must make an initial selection of 10 investments, which will automatically be equally weighted in their portfolio.

### Challenge Rules:

All stock prices start at \$100, and will be updated periodically during the Investment Challenge by the same percentages that the stocks gained or lost during the



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actual period of history (including reinvested dividends.) Once play has started, teams may make trades in their portfolio. Trades are free of commissions on both buys and sells. The only constraints are: no short selling, no “margin,” and teams can’t buy more of a stock if it will take that holding above 20% of their portfolio. The Investment Challenge is played in U.S. dollars. All prices are translated back to dollars, regardless of the country of the stock, so currency fluctuations are incorporated into the dollar prices.

### News Announcements:

News announcements may be general, financial, or stock specific, and may be used by teams to help assess what year they’re in, or in planning portfolio strategy.

If you’d like to know more about how to book a web-based or “in-person” Investment Challenge for your Board, Trustees, Investment Committee, or employees, please contact us for more information:

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\*Prizes are awarded if consistent with participant firm’s gift receipt policies.

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