

# MANAGING THROUGH THE STORM: THE MULTIPLE CHALLENGES OF THE COVID PANDEMIC ON THE MANAGEMENT OF A STUDENT-MANAGED INVESTMENT FUND

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## ABSTRACT

The onslaught of the Covid-19 pandemic in early 2020 brought many challenges to educators. But the students and directors of student-managed investment fund (SMIF) programs faced an especially complicated challenge – while campuses were being shut down and preventing student interaction, the financial markets were facing meltdowns and greatly increasing the need for student participants in SMIF programs to interact to assess and evaluate the situation and to determine how best to reposition the portfolios they managed. This paper will explore how one SMIF program successfully handled these multiple challenges.

**Keywords:** Student-managed investment fund; Covid-19; online education

## EXTENDED ABSTRACT

### Introduction

The Covid-19 pandemic, as its name reflects, emerged on the world scene in the latter part of 2019, first appearing in Wuhan, China, on which it had a devastating impact, which led to strict and widespread lockdowns and filled the rest of world with trepidation, as each country slowly awaited in turn on the imminent arrival of the virus and its dramatic impact on the society and the economy of each locale.

After shutting down vast swathes of Asia and then Europe, the United States was hit by the slowdown in global supply chains, and then the virus itself, in late February 2021. The effects rippled through the country, impacting workplaces, education, a wide range of cultural and social activities, and the financial markets. Given their position at the nexus of many of these effects, the student portfolio managers of student-managed investment funds faced especially complicated challenges in trying to manage through the storm of this pandemic. This paper will focus on the choices and responses of the participants of one such program, Beach Investment Group (BIG), at the California State University, Long Beach, as they sought to meet and overcome these challenges. Three specific types of challenges the students faced were (1) deciding how to re-allocate the portfolio to meet the investment challenges and uncertainties posed by the pandemic, (2) learning how to meet and work productively when the campus was shut down and face-to-face meetings were prohibited, and (3) determining how best to re-structure the team's decision-making processes to reach consensus and make decisions more efficiently and productively in a virtual environment.

### Challenge of Investment Re-allocation and Portfolio Rebalancing

The first, most obvious, and most direct challenge the students faced was to rebalance, or in one case to reinvest, the BIG-managed portfolios to better position them for the post-Covid world that was hopefully soon to come. BIG is responsible for the management of three separate portfolios – two for CSULB endowment-related funds, and one for the CFA Society of Orange County, and the guidelines for the latter portfolio require the use of stop-loss orders for the portfolio's positions. Prior to the onslaught of Covid, the equity portions of each of the portfolios had been split equally between value and momentum holdings, but the arrival of Covid led, on Monday, 16 March 2020, to the largest one-day point drop in the DJIA in history, and, during the same time period, the historic levels of uncertainty regarding Covid and its ultimate path and impact led to dramatic increases in market volatility, as reflected in a 40%+ increase in the VIX. The result of these market movements was the stopping out of most of the equity positions of the CFAOC portfolio, as well as shifts in the strength and direction of the momentum underlying the momentum holdings of all three portfolios. Thus, the cash in the CFAOC portfolio needed to be reinvested, while the momentum holdings for all three portfolios needed to be reallocated. The question the students wrestled with was, where? Ultimately, given both the Fed's strong support of the market but continuing uncertainty regarding corporate profits, the students decided to maintain a maximum equity overweight posture for all three portfolios but to shift their equity style allocation from 50% value and 50% momentum to 50% value and 50% quality. But two key additional challenges needed to be overcome before this decision could be made and implemented.

### **Challenge of Learning How to Work Virtually**

The biggest barrier the students faced was posed by the cancellation of classes and the shutdown of the university for a week and a half once the coronavirus finally hit, together with a prohibition against holding any face-to-face meetings once the university reopened and classes resumed. But, with no class responsibilities during the initial shutdown, the students took advantage of their newly-freed schedules to quickly learn how to use and interact through Zoom (which was then a new skill for most of them) and ultimately met virtually, for lengthy discussions and debates, numerous times throughout the shutdown period. By the time classes re-started, the students had decided on both the asset allocation (maximum equity overweight) and equity style allocation (50% value and 50% quality) decisions described above.

### **Challenge of Revising Voting and Decision-making Processes**

Unfortunately, one area where the use of Zoom fell far short of the in-class experience was when it came to trying to discuss proposed securities online among all 25 students within the class. Although Zoom's polling feature facilitated voting on proposed securities, trying to involve the full class in the discussion prior to these votes quickly became cacophonous, difficult to follow, and counterproductive. To increase productivity while also allowing for greater oversight, the class was divided into a two-tiered structure, with most of the students being divided into one of three portfolio-specific teams, and the remaining students, including the class's executive board, the economic analysis and fixed income teams, plus one representative from each of the individual portfolio teams, serving as the investment committee and portfolio oversight board. Any proposed position was discussed and voted on once by the individual portfolio team and then discussed and voted on separately by the investment committee, with supermajority approval required at both levels before the position would officially be approved and added to the portfolio. But with this new structure, the class was able to be productive and return all three portfolios to being fully invested by the end of the Spring 2021 semester.