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Expanding Management in Student Managed Investment Funds

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Abstract

Student Managed Investment Funds are popular experiential learning programs based on student management of real dollar portfolios. We present a SMIF structure with expanded student responsibilities for manager selection, manager training, and team building in addition to the structured stock selection and portfolio management activities of traditional SMIF programs. The goal of our fund is to expand learning opportunities by allowing students to take a leadership role in all management aspects of the fund, not just money management. The structure of our personnel and investment decision process builds on what scholars in the leadership and management literature call the “full range model” of leadership principles. Our fund structure has been in place for almost two decades and alumni from the program report that the personnel management aspects of the fund have been as valuable as the more traditional investment management activities.
Expanding Management in Student Managed Investment Funds

The benefits of experiential education programs as part of a college curriculum are documented by a number of studies (for example, see Houde, 2007; Kolb and Kolb, 2005; Kayes & Kayes, 2003; Gagnon & Witt-Smith, 2001; LaForge & Busing, 1998; Gagnon, 1988; McKeachie, 1974; and Dewey, 1938). Key benefits from experiential education compared to more traditional classroom structures include a higher level of student involvement, development of lifelong learning skills, and a deeper educational experience leading to longer-term retention. Burkhotter & Schafer (1984-1985) provide evidence that experiential education programs help students better prepare for professional careers. Research also shows that experiential education helps students develop communication skills, make better career decisions, and improve job-market prospects (for example, see Carter & Thomas, 1986; Knaper & Cropley, 1985; and Schiller & Hanks, 1984).

Student Managed Investment Funds (hereafter, noted as SMIFs) are a popular form of experiential education in many business schools. Students manage real money under supervision from some combination of faculty and practitioner advisory boards. SMIF programs must balance the goal of “learning by doing” from independent decisions by students with the traditional goal of generating the highest possible risk adjusted return. The balance of these two goals varies by program.

In this paper, we present a SMIF structure tilted aggressively toward overall student learning as the primary objective of the fund. Our structure expands the learning objectives beyond competent application of finance principles to include higher levels of student management for all operational decisions. The roles of faculty and advisory boards are limited to oversight within set parameters defined in the fund’s Investment Policy Statement.1

Student
managers are responsible for a full range of decisions on personnel, operations, stakeholder management, and investments. Students must provide adequate reporting, analysis, and explanations for all decisions on an ongoing basis, but student decisions stand unless a policy or protocol is violated. The program is unique for its breadth of student responsibilities and emphasis on goals beyond financial performance.

TRADITIONAL SMIF PROGRAMS

Lawrence (1994) outlines the early history of SMIFs starting with the Gannon University fund in 1952. In a recent survey, Lawrence (2008) finds that over 314 universities manage more than $407 million of assets. In response to the rapid growth and continued interest in SMIF programs, finance faculty formed the Association of Student Managed Investment Programs to allow a dialogue on SMIF issues and innovations. Faculty regularly share experiences with SMIF programs at academic conferences and in published research. The popular press also recognizes the unique experiential learning opportunities offered by SMIFs (for example see articles by Elmerraji, 2012; Trejos, 2008; Siwolop, 1996; Opdyke, 1998; Ruth, 1997; and Rose, 1997) and employers actively seek students who have fund management experience in their educational program.

student managed investment club program based on trading Exchange Traded Funds. While there are many different fund structures, survey findings by Neely and Cooley (2004) indicate that faculty members provide much of the organizational structure for student funds, select student managers, and either participate or influence the decisions. Most funds are attached to a semester course where enrolled students focus on stock analysis, security selection, and portfolio structure.

For many students and faculty, the primary attraction of SMIFs is the experience gained by investing real money as opposed to paper portfolios. While the investment issues are important consideration for SMIFs, the experiential nature of these programs may be extended to a wider range of management issues. In our SMIF, students are responsible for what may well be the most important non-financial decision of student funds: leadership development and selection of new managers. There are a number of major benefits and learning opportunities from these added responsibilities. The relationships between outgoing and incoming managers help mitigate annual manager transition problems and create a longer run view of the fund’s mission. Personnel issues also represent valuable "real-world" situations that students will most likely face in their professional careers. A rigorous manager selection process matched to realistic hiring procedures offers a vehicle for expanded student learning. Student participation in the development and selection of future managers builds a stronger sense of responsibility for the long run future of the fund while offering realistic leadership situations.

LEADERSHIP PRINCIPLES FOR SMIF STUDENTS

In an early study of leadership, Burns (1978) defined a dichotomy between transactional and transformational leadership. Transactional leadership represents a “management-by-
exception” approach where leaders monitor adherence to guidelines and process, rather than judge a manager’s outcome from a decision. Transformational leadership requires more active involvement where the leader must give a sense of purpose and vision to the group, communicate and set high standards, stimulate followers to look at problems in a creative way, and provide individual attention to members of the group. Bass and Avolio (1990) extend the work of Burns and structure what they call a Full Range Model of leadership with both transformational and transactional leadership components. Figure 1 provides an outline of the key elements of this model. A positive relationship between transformational leadership behavior and employee attitudes and performance is found in works by Sosik, Avolio, and Kahai (1997), Avolio, Waldman, and Einstein (1988), Hater and Bass (1988), Bass (1987), and Bass (1985). Bass and Avolio (1990) find that contingent rewards, often associated with transactional leadership, are also effective.

While many management professors teach the Full Range Model of leadership in management classes, few realistic learning opportunities are available to reinforce the model’s working relationships. Our approach uses the SMIF as a vehicle to help business students develop transformational leadership skills by placing them in situations to make personnel decisions and policies affecting the longer-term success of the fund. Students take on the inspirational, intellectual, and individual considerations that drive the transformation leadership principles. Our structure required moving faculty further away from typical transformational leadership roles and into more transactional leadership categories outlined in Figure 1. Faculty advisors follow a management-by-exception approach by setting parameters and protocols for the fund but allow students to make decisions within these boundaries.
Our SMIF students are tasked to run an asset management company, not just an investment portfolio. Students are responsible for promoting SMIF activities and planning for the long run future of the program. Student managers provide a periodic review of all policies, strategies, performance, logistics, and new initiatives for the funds and bring new ideas to the fund’s Advisory Board. Students also work in smaller groups to orchestrate specific investment dynamics for two different funds, each managed by a working group of students. A collaborative arrangement between senior level SMIF students and an underclassman finance club, called the Finance Society, provides a forum for using leadership and management principles to mentor future managers. Faculty advisors also use the link between seniors and underclassmen to communicate expectations for student management of the fund for both existing and prospective managers.

OUR STUDENT MANAGERS AND SMIF STRUCTURE

The liberal arts curriculum requirements for business school students influence the structure and operations of our SMIF. Students generally take liberal arts courses for their first two years, but students interested in SMIF must get an early start in key courses that support managing the fund. At the start of the junior year, most of our business majors have taken only a few courses related to investing, to include basic economics, accounting, and business statistics classes. Table 1 provides an outline of the course sequence we advise students to take if they are planning on applying to SMIF. In addition, business students take a series of required core business courses in their junior year. We strongly encourage students interested in SMIF to take the Organizational Behavior and Information Systems courses in management as sophomores or early in the junior year to have key management skills needed for SMIF. Most students take
their first investments course in the spring of their junior year. This course sequence limits serious management activity in our SMIF to the students' senior year. Prospective senior managers apply to SMIF during the spring semester of their junior year.

The overall organizational structure of the SMIF program is outlined in Figure 2. Each year the fund accepts seventeen students—eight growth fund managers, eight value fund managers, and one general manager. All funds are domestic equity portfolios and are restricted from margin or derivative investments. Managers take control of the fund on April first of their junior year and manage the fund until March 30th of their senior year. All fund managers are required to take Portfolio Management and Securities Analysis in the fall of their senior year. They also enroll in a SMIF seminar that meets weekly throughout the academic year and receive one unit of academic credit. Through these courses, faculty monitor student manager activities and establish a continuous line of communication with the SMIF participants. Student managers are responsible for continuous review of their portfolio holdings and a list of stocks on their watch list of prospective stocks meeting both style and strategy criteria. Student managers write semi-annual performance reports and regularly make formal presentations it to an Advisory Board of investment professionals.

In addition to operation considerations, our SMIF structure places additional responsibilities on managers to develop prospective managers in the freshman, sophomore, and junior classes by organizing seminars for the Finance Society. Students in the Finance Society learn how to conduct a stock analysis using different investment screens, work with data sources, and explain different investment strategies. Practitioners, faculty, and SMIF managers serve as invited seminar speakers for the club. Society members follow stocks that either are in the SMIF
portfolio or are potential buy selections of the SMIF managers. This process allows a sense of continuity linking prospective managers and existing managers of the fund. The relationship allows for observations of actual work products of prospective managers to supplement information in the manager selection process.

The biggest responsibility of SMIF managers, beyond active investment activities, is the selection of student managers for the next year of the fund. Student managers are responsible for continuous review of all personnel procedures and policies affecting the fund, to include both training and manager selection. Student managers have a responsibility to take proactive steps to strengthen the long run future of the fund. This is a unique aspect of the SMIF structure, since students must consider a wide range of issues beyond short-term stock selection, portfolio composition, and performance reviews. Faculty use contingent rewards by making the responsibilities of student managers' clear and determining grades based on student performance in all management aspects of the SMIF program. Rewards also come from faculty recommendations and letters that speak to the performance of SMIF managers in the context of “doing the job” of an analyst and manager. The faculty advisor evaluates students on the consistency of their decisions and initiative in improving the process, rather than on the outcome of their investment decisions. By basing grades in part on the innovations and development of the program, students are evaluated in terms of both present and past students in the fund.

A Focus on New Manager Selection by Old Student Managers

The experiential learning opportunities in SMIF come from making as many similarities between our student funds and "real-world" management of an investment company. But,
SMIFs face a challenge that professional portfolio managers do not encounter. SMIFs regularly turnover a significant proportion of the management team, if not their entire team, each year. The loss of institutional experience caused by the periodic manager turnover, while consistent with the educational objectives of most SMIFs, presents a major management problem. Various mechanisms can accomplish the transition from one group of managers to another. One method is to provide for overlapping managers from one year to the next, but this requires expanding the management team to include juniors with limited finance backgrounds. SMIFs structured around a course framework can also minimize the turnover issue, but the professor, not the student, becomes the main transitional element from year to year.

Due to the nature of our liberal arts curriculum and our goal of creating more student leadership and management opportunities, it was not feasible to have junior managers on the fund and rely on them to maintain the continuity of the fund from year to year. The philosophy of our fund also precluded the use of a course structure with transition decisions from faculty. Instead, an important goal in the design of our manager selection process is to use student leadership to aid in the transition. Consistent with the philosophy of our fund, existing managers run the selection process and the training of underclassmen. We believe the important lessons learned from this process provide an important complement to the more technical finance lessons learned in the management of the fund.

The Application Process

The selection process for SMIF manager is outlined in Figure 3. The triangles in the figure represent points in the process where student managers meet and make decisions. The general manager (GM) of the fund plays a key role in orchestrating the meetings and relaying the
results of decisions to applicants. It is important that all decisions must be defended and explained at every step in the process. The process begins informally with the Finance Society as prospective applicants are mentored by SMIF managers. SMIF managers have leadership opportunities to inspire and motivate underclassmen to learn investments and build competencies that will improve the quality of applications and the future performance of the program. The formal manager selection process begins early in the spring semester when the current managers hold a general information meeting for all interested students. The meeting is publicized by classroom visitations to finance classes, website announcements, electronic message boards, and flyers posted around campus. At the information meeting, the SMIF managers discuss the program’s goals, operations, and the manager selection process. Managers set expectations, answer questions, provide examples of what is needed to be a successful applicant, and distribute application forms. The application deadline and professional standards applied to the application screening are also addressed.

Figure 3 about Here

Student managers are coached and are expected to demonstrate transformational leadership in all interactions with potential applicants. Every applicant has a SMIF manager who serves as a mentor in the process. In addition to basic information found in the resume (i.e. courses taken, internships, experience) applicants must answer questions pertaining to their desire to be a fund manager. Student managers emphasize that the best applicants demonstrate an ability to “do the job” of a manager, rather than just present a set of characteristics, honors, and impressive resume. Oral communication of a clear thought process and written deliverable products play a key role in the process. For example, a rigorous interview process and a formal written stock report are part of the application. To be eligible for the fund, a student must have a
minimum 3.0 GPA and a "B" or better in all finance courses taken, including current courses. Thirty to forty applicants normally meet these basic qualifications each year and submit appropriate materials for review.

All seventeen managers meet to review the application material and prepare a list of students invited for interviews. Candidates eliminated at this stage have either incomplete or late application materials. As part of the preparation for interviews, the fund’s general manager has a discussion with the other fund managers about the importance of confidentiality, fair and professional treatment of all individuals involved, and the importance of support and documentation for the decisions made during the process. The faculty advisor reminds students that the management of the selection process is an excellent opportunity for using desired transformational leadership behaviors. Managers must be able to defend all decisions on personnel within the parameters of equal opportunity and fair employment practice. Faculty and student leaders in the fund emphasize the importance of building a legacy for the fund and shape the future of the program through a rigorous and fair manager selection process.

Stock Analysis Reports

Once the list of eligible applicants is determined, each candidate receives a company to analyze. Students who participated in the Finance Investment Society have a clear advantage at this step in the process, since they completed such stock analysis assignments and participated in open discussions of such proposals as part of the club activity. Candidates perform research on a company, write an investment report, and justify a buy/sell decision for the stock of their company. Approximately one-half of the applicants are assigned a value company with the remaining one-half of the applicants receiving a growth company. Many of the applicants are taking their first Investments class during the selection process and must do a lot of outside work
to complete the project. To provide additional support for students, high quality sample reports from the previous year are available for review. Also, each candidate has a current fund manager to act as a mentor. The job of the mentor is to introduce the candidate to the available information services (First Call, Compustat, LEXIS/NEXIS, Bloomberg, Morningstar, etc.), answer questions about format, and explain the type of support required to justify the recommendation. The mentor does not give opinions on the analysis or the conclusion in the candidate's report. Mentoring gives managers the opportunity to learn more about the individual candidate’s ability to do the job of a SMIF manager, which provides additional information in the manager selection decision.

When candidates turn in the investment reports, the faculty advisor removes cover sheets containing student names and assigns a unique number to each report. The managers from each fund read reports appropriate to their fund and fill out an evaluation form. The criteria for evaluating analyst reports includes completeness, adherence to the specified format, use of information sources, quality of the analysis, and support for the buy/sell decision relative to the reports of other candidates. Managers recuse themselves from evaluating any report that they recognize as coming from someone they mentored or from anyone else for which they cannot be objective (i.e. friends, roommates, etc.). A tally of the individual evaluations provides a final ranking for the reports. With twenty or more reports and eight managers reading each one, the ranking of reports is a time consuming process. Nevertheless, student managers often point to this process as one of the better learning experiences, since they develop a skill for breaking down an analysis prepared by someone else. If there is a significant discrepancy in ranking, the managers discuss the report in an open meeting of all managers and resolve differences.

The Interview Process
Prior to the interviews, managers determine a standard set of questions and develop an interview evaluation form. Managers can ask additional or follow-up questions, but all interviewers are required to ask the same standard set of questions. Important question topic areas include the ability to work in a team setting with examples of good teamwork, the motivation for becoming a manager, the understanding of basic financial concepts, and the candidate's other time commitments. Questions divide into three broad topic areas as follows: Behavioral, Financial Markets, and Background. Examples of questions used in each of the interview areas appear in Table 2. Two managers interview each candidate for a given question area. Overall, six managers interact with each candidate helping to achieve consistency through individual exposure to the candidates and reduce any individual bias that may enter into the process. Student managers discuss with candidates the importance of leadership and management skills for successful fund managers to help set the standards of leadership from year to year.

Candidate interviews are set up like a “Super Saturday” event used by many large employers of investments students. Personal interviews take approximately twenty minutes each, with a ten-minute period after the interview for the managers to discuss the candidate and to complete the interview form. The candidate then proceeds to the next interview area with a different set of managers. At the end of the process, each candidate has met at least six of the existing managers and has had direct experience with what a manager’s job entails. This process helps provide consistency in the interview evaluation and also allows individual attention for each applicant.

After interviews are completed, managers meet to determine which candidates have sufficient background and interest to continue to the next stage in the process. The goal of the
evaluation at this stage is to classify students into one of three categories. The first category represents candidates that show strong promise. The secondary category includes candidates that would possibly make good managers, but more information is necessary to assess them. The last category is for students that the managers believe would not make good student fund managers for specific reasons. Candidates classified in the third category usually do not have the necessary time commitment for the program or lack the ability to work effectively in a team environment. Candidates in the first two categories continue in the manager selection process. At this stage, student managers must consider each candidate as an individual with a full review of each candidate’s situation. All concerns about a candidate must be clearly articulated and documented so that there is full disclosure of how a candidate measured up to given standards. Student managers must be able to explain their decisions to unsuccessful candidates and all candidates have the right to a post-interview explanation of the outcome.

**Manager Selection**

Once the report ranking is complete, a combination of report rankings and interview evaluations provides a final measurement for each candidate. The computation of final scores uses a weight of 40% for the interview and 60% for the stock report. The top seventeen scores qualify as the new managers. During their interview, candidates have an opportunity to express interest in the general manager position, rather than concentrating on fund management. Managers use the candidates’ responses and their own experience with the candidates during the selection process to determine their choice for general manager. The nature of the position requires significant leadership and interpersonal skills. Good candidates for the GM position have demonstrated
leadership in student clubs and extracurricular activities but must not be too absorbed in activities that would compete with the time necessary to be a good GM in the senior year.

Managers give the final student ranking to the faculty advisor along with the managers’ suggestion for the general manager position. The faculty advisor reviews the results and verifies that the managers followed the selection process guidelines. The emphasis of this review is on procedural issues and the ability of student managers to explain their reasoning, consistent with the transactional leadership role of the faculty advisor. The list of new managers becomes public only after documenting and justifying each step of the manager selection process.

Students recognize that acceptance into the SMIF program is an honor that improves their relative standing with graduate schools and employers. It is inevitable that some good students do not make the manager list, given the large number of high quality students applying for the small number of positions. Students who request feedback about their performance meet with the GM for a complete briefing. This is a difficult but realistic situation where personnel decisions must meet legitimate standards that are not capricious. The General Manager knows that communication with candidates is a key responsibility when she accepts the position. She must have leadership skills so candidates know the process was fair with attention to each individual’s situation. After all student inquiries are completed, all selection materials are turned over to the faculty advisor to be archived. This prevents the dissemination of confidential materials to the new managers.

Manager Transition

The entire selection process lasts about two months. The last month of the spring semester provides the transition period when old managers instruct the new managers on specific
procedures, practices, and reporting standards. Control of the fund passes on to the new managers, but old managers are available as consultants. New managers get the account numbers, meet the brokers for the accounts, and gain access to the computer files. The old managers work closely with new managers during this period to communicate the philosophy of each fund and the history of the stocks in each portfolio. For new managers who were part of the Finance Society, much of this information is a review of materials in club seminars. The old managers also guide the new managers through the process of using the investment analysis reports to make portfolio decisions and to execute the necessary transactions. New managers present buy or a sell decision to the old managers and the faculty advisor during the transition period to help new managers learn how to present recommendations. The old managers challenge the reasoning and verify that the new managers have adequate justification for their decisions.

To help promote continuous improvement, the final duty of old managers is to present suggestions to the faculty advisor and advisory board for modifications to the fund. For example, prior groups of student managers refined the manager selection process through a series of suggestions. Examples of major changes coming from this end-of-year process include changes in fund management procedures over the summer months, use of new attribution model software, diversification overlay criteria, and the formation of the Finance Society for all students to begin the investment orientation process as early as a student’s freshman year. The operation of the funds changed significantly over the years as a result of these proactive initiatives on the part of student managers.

**Advantages and Disadvantages of Expanded Student Management**
As the senior managers graduate each year, their knowledge and experience leave with them. A primary benefit of student selection of their successors is that old managers develop close working relationships with the new managers. This provides a conduit for the transmission of the fund's culture and procedures. The responsibility of the old managers in the selection process creates an extra incentive for the old managers to make sure new managers are able to continue the success of the fund. Not only were the securities in the fund "their" choices, but so are the new managers.

A problem inherent with all SMIFs is the mismatch between the student's short-term horizon (typically one or two semesters) and the longer-term horizon of the fund. In our experience, it is not uncommon for the new group of managers to want to immediately liquidate the portfolio and reinvest in their own security selections. Student operation of the manager selection process appears to have increased both old and new manager interest in the long-term performance of the fund and has decreased the propensity of new managers to "sell-off" securities without following standard buy/sell criteria.

The rigor of the selection process demonstrates to prospective managers the high level of work expected of them during the coming year. Candidates clearly see the amount of work the current managers must put into this aspect of the fund. Most candidates begin to realize that stock analysis and portfolio constructing skills are only part of the SMIF experience and a significant emphasis is placed on personnel management of the fund. Less serious candidates tend to drop out as the process unfolds. During the selection process, managers emphasize the importance of teamwork and their actions are a signal to candidates that working relationships between potential managers are essential to success in the program. Candidates also observe the managers' adherence to selection procedures. Managers explain the procedures and express
expectations as part of the interview process. Thus, the manager selection process itself begins the learning experience for fund managers.

The outgoing managers derive significant benefits from their experience in running the manager selection process. During the interviews, managers learn the value of being prepared for relevant questions. Sitting on the hiring side of the table gives them a different perspective on "cute" or "pat" answers to interviewer questions. They also report a better understanding of the importance of preparation, enthusiasm, and interest on the part of the candidate. Most important, students learn to communicate expectations clearly.

Unlike investment decisions, the personnel management decisions of the students immediately impact people they have been working with in a face-to-face process. This is a realistic management situation that most of the student managers have never encountered. The weight of the decision makes several other issues relevant to the managers. Managers know that they must provide explanations of their decisions when requested by candidates or the faculty. From this experience, students learn the value of acting in a fair, consistent, and professional manner. The importance of documentation also takes on a new light. Since they are dealing with fellow students, managers learn about confidentiality and professional objectivity. Experience with the personnel review aspects of our fund helps students develop skills that many employers seek. SMIF managers have an important leg up in interviewing and dealing with management issues.

Achieving consistent adherence to procedures with undergraduate students is the major challenge for faculty in our SMIF structure. During the selection process, managers must avoid breaches of confidentiality and collusion among the old managers. A related realistic problem is the possibility of cronyism between old manager and candidates. Students have biases towards
their friends, fraternity brothers, or sorority sisters. These breakdowns are always possible in our system, especially if managers collude, but continued improvement in the fund’s procedures and traditions helps minimizes the likelihood. The requirement that all decisions must be justified and explained to candidates and faculty advisors reduces selection bias. Student selection of managers may be more prone to challenges than selections made by a faculty committee. On occasion, students ask the faculty for explanations of student manager decisions in the selection process. This can be frustrating, but the only recourse in our system is to verify that the outgoing managers followed the appropriate procedures and to direct students to set up a meeting with the general manager for more specific explanations.

CONCLUSION

SMIFs offer students the opportunity to learn important real world skills that are difficult to teach in classroom settings. With appropriate changes to the structure of the SMIF, students learn management and leadership beyond more traditional investment skills. A pride factor occurs by allowing a full range of student management decisions. This process is not without its costs. By its nature, a student-run process is a learning process for the students, which implies that mistakes may occur. Establishing appropriate procedures can minimize, but not eliminate, mistakes. The process does take a significant amount of the managers' time during their final year in school. Faculty must accept transitional leadership roles and give up the temptation of controlling the investment and personnel decisions and process. Faculty must also be willing to create cooperative relationships across finance and management to provide students with sufficient backgrounds and resources for the full range of decisions. Such an approach is necessary to put student personnel management into a student managed investment fund.
Student selection of fund managers is an important change to a SMIF structure that can augment the value of student experiences by providing first-hand exposure to some of the more difficult issues that professionals face: interviewing, evaluating, training, and selecting personnel. Also, a student managed selection process is consistent with student "ownership" of the fund management process. While the management process we describe in this paper is still evolving even after almost twenty years, as is inherent in its design, our alumni report that the manager selection component of the fund has become one of their most valuable learning experiences. We believe that one validation measure of the process comes from the large number of former student managers who actively give their time, energy, and resources to the fund by serving on the advisory board or through their donations long after they graduate. On the investment performance issue, our funds continue to be competitive relative to chosen style benchmarks even after expanding the program’s goals to include the non-investment duties and responsibilities faced by modern investment professionals.
Figure 1. The Full Range Leadership Model

<table>
<thead>
<tr>
<th>Transactional Leadership</th>
<th>Transformational Leadership</th>
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<tbody>
<tr>
<td><strong>Reward for Compliance</strong></td>
<td><strong>Inspirational</strong></td>
</tr>
<tr>
<td>- Follower receives reward related to needs in return for compliance with expectations</td>
<td>- Inspire others to perform</td>
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<tr>
<td><strong>Contingent Reward</strong></td>
<td>- Clarify organization’s future</td>
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<tr>
<td>- Make clear expectations of outcomes and rewards</td>
<td>- Create a sense of purpose</td>
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<td>- Exchange reward and recognition for accomplishments</td>
<td>- Align needs of individual &amp; organization</td>
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<tr>
<td>- Actively monitor and provide supportive feedback</td>
<td>- Help followers achieve</td>
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<tr>
<td>- If we succeed you will be rewarded</td>
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<tr>
<td><strong>Management by Exception</strong></td>
<td><strong>Intellectual</strong></td>
</tr>
<tr>
<td>- Intervene only when serious problems occur</td>
<td>- Encourage imagination</td>
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<td>- Allow mistakes and learning how to make corrections</td>
<td>- Challenge old ways and seek better ways</td>
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<td></td>
<td>- Encourage thinking like a professional</td>
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<td></td>
<td>- Reinforce calculated risk for return thinking</td>
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<td></td>
<td>- Challenge assumptions and related outcomes</td>
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<td><strong>Individual Considerations</strong></td>
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<td>- Empathizing with individual needs</td>
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<td>- Making interpersonal connections</td>
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<td>- Show caring and compassion in actions</td>
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<td>- Encouraging development &amp; growth of followers</td>
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<td>- Look out for interests of followers</td>
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Note: Adapted from Dana, Brown, and Dodd (2001).
### Table 1. The Typical Recommended Course Sequence for Student Managers

<table>
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<th>Freshman</th>
<th>Sophomore</th>
<th>Junior</th>
<th>Senior</th>
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<td>Fall</td>
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<td>Microeconomics</td>
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<td>Macroeconomics</td>
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<td>Financial Accounting</td>
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<td>Money and Banking*</td>
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<tr>
<td>Managerial Accounting</td>
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<td>Business Statistics I</td>
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<td>Business Statistics II*</td>
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<td>Organizational Behavior</td>
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<td>Information Technology</td>
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<tr>
<td>Financial Management</td>
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### Notes:

1. Courses are listed in order of earliest likely enrollment opportunity.
2. The list contains only the required “core” business courses that are most relevant to preparing a student for SMIF and finance courses most directly related to SMIF.
3. SMIF is one unit of academic credit for managers and for the faculty advisor even though SMIF management spans both the fall and spring semesters of the senior year.
4. Courses recommended to SMIF managers that are not required for the business degree and are not required for a finance concentration are identified with an asterisk *. 
Figure 2. Student Managed Investment Fund Organizational Chart

Advisory Board
Investment Professionals
University VP-Finance
Dean of the Business School
SMIF Faculty Advisor
Finance Society Faculty Advisor

SMIF PROGRAM
Faculty Advisor
(1 unit Teaching Credit)

SMIF General Manager
Senior Student
(1 unit academic credit)

SMIF Growth Fund
Seven Student Managers
(1 unit academic credit)

SMIF Value Fund
Seven Student Managers
(1 unit academic credit)

FINANCE SOCIETY INVESTMENT CLUB
Faculty Advisor
(Extracurricular Activity open to all Students without Regard to Class Standing)

Student President
Student President-elect
Student VP-Program
Student VP-Membership

Ongoing Development of Candidate Pool
- Monitor Activity in Finance Society Club – Mentor underclassmen
- Visit Investments Classes – Provide longer term learning goals
- Promote SMIF – Website, Announce in Classes, & Post Flyers
- Hold Information Sessions and Communicate Deadlines

Applicants for SMIF

Application Process
- Review applications for completeness (timely submission, stock report complete, etc.)
- Review applications for basic criteria (GPA, Inv. Class grade, Senior standing, etc.)

Managers
- Review Applications
- Criteria Met?

Candidate Stock Report Review Process
- Two managers assigned to each report provide written reviews.
- Apply rubric (data use, concepts, initiative, professional standards, etc.)

Managers
- Discuss Each Report &
- Select Candidates for Next Round

“Super Saturday” Candidate Interviews
- Two managers assigned to each candidate interview session.
- Three interview sessions (current events, behavioral, & technical) during the day.
- Similar set questions for each candidate in each of the three layers of interviews.
- Realistic expectations (concepts, data sources, time commitments, verbal pitch, etc.)

Managers
- Review, Discuss, &
- Assign New Managers

Report Results to Advisors and Dean’s Office

GM explains decision
Table 2. Sample Questions used in the Application and Interview Process

Note: Avoid the following types of questions: yes/no questions, obvious questions, questions that are not job related, and questions that rarely produce a true answer.

**Application Questions**
- Why are you interested in becoming a SMIF manager?
- What are three attributes that most qualify you to be a SMIF manager?
- What, if any, previous investment experience do you have?
- What other organizations have you been involved with on campus, and what will you be involved with next year?

**Interview - Background Questions**
- *Work Experience:* Why did you take a job at ______, and what important experiences or lessons did you learn?
- *Activities:* Why did you join ________, and what did you get out of it?
- *Future Plans:* Explain any future jobs or activities you are actively seeking.
- *General:* In your opinion, what is the most important item listed on your resume and why?
- *SMIF:* If chosen as a manager for SMIF, what do you think your role would be? What would you add to the group that someone else may not?

**Interview - Financial Markets Questions**
- Can you define the difference between value and growth investing?
- What is the DJIA? What is a key criticism of the DJIA? Approximately, where is it? Why is the DJIA useful?
- What sectors (industries) have been driving the market over the last quarter?
- What is a beta? What does it measure?
- What is the CAPM?
- If you were on the growth fund, what would you look for in a stock?
- If you were on the value, what would you look for in a stock?
- If you recently won a million dollars, what would you do with it?
- What is the greatest risk to the market this year?
- What is the effect of higher interest rates on stocks and bonds?
(Table 2. Continued)

**Interview - Behavior Questions**

- Why are you interested in being a fund manager? What can you contribute?
- What, in your opinion, is an “ideal group”?
- Describe the worst person you have ever had to work with. What was the situation? How did you work through the difficulties?
- When someone does not agree with you in a group, how would you go about convincing them?
- What is one of your most memorable accomplishments here at the University?
- Describe an experience that left you feeling unprepared. How did you deal with it?
- Are you more likely to be a leader or a follower in a group setting?
- What was your best/worst group experience?
- Have you had any experiences where you had to separate your personal feelings from a decision process? If so, please explain this experience.
- If you are on SMIF and see another manager going beyond the approved policies and procedures for SMIF, what would you do?
Endnotes

1. The philosophy and strategy that guides SMIF investment activities is outlined in the fund’s Investment Policy Statement (IPS). See the Chartered Financial Analysts’ “Elements of an Investment Policy Statement for Individual Investors,” (2010) presentation of professional standards for an IPS. It is also a good idea to have a prospectus for the fund to add another realistic component faced by money management firms.

2. More information can be found at the Association’s website: http://www.som.uaf.edulasmp.

3. For example, during the SMIF managers’ annual trip to New York City a number of investment firms request student resumes and we regularly place a high percentage of fund managers with these firms. Also, the Wall Street Journal cites cases in which students passed up enrollment at more prestigious schools for the opportunity to qualify for the student investment fund at other schools (Opdyke, 1998).

4. We want the student selection process to work much like a hiring process in practice. Lou Adler (2007) provides a good reference for key principles in setting up a hiring process. The emphasis is on whether or not the candidate can do the job rather than a set of attractive characteristics. We have found, for example, that students with high GPAs and a long list of activities do not normally make the best fund managers.

5. The candidates are not permitted to issue a “hold” decision. Students proposed this restriction to force a decision and a defense, rather than allowing a “middle of the road” position.
References


