



Maryland State InvestWrite Winner – High School

Student: Trey Rill, Grade 12

Teacher: Kurt Marx

Stephen Decatur High School, Worcester County

Describe your Stock Market Game portfolio. Discuss how you could diversify your portfolio for success in 10 years. Explain what stocks, bonds, and/or mutual funds you would add or remove and why.

The Stock Market Game is a very engaging, informative, and oftentimes humbling competition. In the two times I battled the odds, I have had great success, and on the other hand...I have had results I would not love to discuss. But failure is necessary for growth, and reflecting on my experience in the Stock Market Game will allow me to make better, more informed financial decisions. We currently live in a very chaotic geopolitical environment, with speculative investment occurring at heights never seen before. Concerns over fiscal policy, slashing interest rates, and overall disillusionment in the U.S. dollar made gold my favorite Stock Market Game investment.

My team made it a point to construct an investing thesis prior to making any investment. As a result, for our very first investment, we constructed our stance. "As long as the Federal Reserve continues to cut interest rates, the price of gold will increase." With our thesis in place, we went long in gold, mobilizing \$30,000 into GLD and GDX, and around \$10,000 in silver. Throughout the next few weeks, our thesis held strong, and we returned about \$4,000. However, this is when our team fell into a dangerous investing habit: holding on too long. We had made a great profit, but we failed to sell because we wanted to make more. We did not continue to readjust our thesis, do research, or check for extraneous variables. As a result, when gold crashed, we got out late and recorded a net loss on our investment. However, gold continues to be my favorite investment for a multitude of reasons. One, our thesis was clear and understandable; if our thesis didn't make sense to us...it would make no sense to other investors. Two, our thesis made sense from a macroeconomic perspective. When the Federal Reserve cuts interest rates, there is less opportunity cost for investors to hold non-yielding assets like gold. Third, our thesis was easy to monitor; we could watch day by day if the elements of our thesis continued to be true. For the above three reasons, gold was my favorite investment.

My least favorite investment that my team made was in Praxis Precision Medicines, Inc. (PRAX), and it serves as a warning for momentum investment. PRAX went up a resounding 150% in one day during the beginning of the Stock Market Game. Seeing that, my team reasoned that PRAX could not possibly go up anymore, and we shorted \$30,000 worth of shares. We would regret this decision the next morning when it went up another 10%, and we lost \$3,000. Then the next day, another \$3,000. When we finally covered our short, we were in the hole \$7,000.

PRAX was a lesson in responsible investing. We did not know why PRAX initially went up, we did not have a thesis, and we did not (and still do not know) what they do. PRAX was a lesson in research, and that without it, investing essentially becomes gambling.

From the Stock Market Game, I have learned a great deal about PEG ratios, analyzing free cash flow, and diving into short percentages. All of those can be great indicators of good investments...if you have two hours every day to research. Very few people have that privilege, and even if you have two hours, you do not want to spend it digging through numbers. You want to have time to invest in what is most important: yourself. As a result, any long-term investing strategy should take less than 10 minutes a week to monitor. To speed up investing and reduce human error, I have learned from the SMG to only ever look for three things: Does the investment have a durable competitive advantage, do I understand what they do, and can I create an investment thesis with only one variable.

To have a durable competitive advantage, an investment must be well above its competitors in one of four categories: price, quality, innovation, or proximity. For example, Walmart has a great competitive advantage in price. No one can compete with Walmart on price.

The first step in securing any long-term investment is to find a company that has consistently beaten its competitors in one of the three for at least a couple of years. No matter what economic shifts, trends, or policy changes occur, companies with durable competitive advantages will do well because they are superior competitors. However, a company with a durable competitive advantage is useless if you cannot monitor the extent of its "moat." That is why it is important to invest in what you know. Having at least a basic understanding of what you are investing in is vital to watch out for upcoming competitors. If you invested in BlackBerry without knowing what they did...you would end up with a nasty surprise when Apple started to out-innovate them. Understanding what your investment is and who its competitors are is imperative for long-term investing.

Finally, with any investment you should have a simple investing thesis that is easily monitored. Keep it to one variable. The more variables in your thesis, the more work you must do. Companies worth investing in should have simple and clear reasons for buying. For example, "As long as McDonald's has the most fast-food restaurants in the world, I will continue investing." This thesis is clear and has only one variable to monitor. The fewer variables you need, the stronger the company's durable competitive advantage is.

Time is invaluable, so only worry about the following when investing. One, does this investment have a durable competitive advantage? Two, do I understand fundamentally what this investment does and who their competitors are? Three, can I create an investment thesis with only one variable? Most important, however, it is starting now. The sooner you invest, the more compound interest works in your favor. Investing young is the key to financial freedom, and with financial freedom you can focus on your most important investment, yourself.