Trading simulation

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Introduction

The Trading simulation is designed to put the participant in the seat of a real broker, monitoring the market and its movements (price, news, supply & demand), anticipating price changes, taking incoming calls from clients who may variously want to buy or sell and making outgoing calls to generate business and manage risk and holding levels.

The Trading simulation connects participants simultaneously like market traders in a simulated exchange. The simulation can be run either in a “closed” format or an “open” format. In the closed format, the simulation is run in an off-line version, with all participants connected to a specific local area network, with the number of participants limited to 25. In the open format, the simulation can be run over the Internet and the number of participants could be unlimited.

During the simulation, the participants experience the stress, demands, exhilarations and disappointments of a typical trading day. They will be required to adapt their views when faced with different market conditions. They may also need to adjust their particular trading strategies, from trading within a tight range - which forces the participants to try to make money between the purchase price and sales price - to scenarios where participants will need to take a view of the market and manage the risks involved. The day has been pre-programmed with news and price developments at pre-determined times; however it can be manipulated from the control panel during the session in order to test the abilities of the individual dealers. Overall, the participants will test their abilities to react to markets and to experiment with differing strategies and practices.

Timing

A standard session typically requires either an hour of pre-simulation e-learning or a twenty minute presentation before the start of the trading. While the duration of the actual trading session can vary considerably, we generally run sessions of one hour for starters and sessions of two hours for participants with more experience. During one session a full trading day is simulated. However, this can be stretched to multiple days in order to show the impact of overnight positions. After the session, the trainer provides both group and individual feedback, reviewing the market developments, prices and individual positions, strategy and profit/loss. The feedback session usually requires an average of 30 minutes. For a beginner session, we therefore plan on spending 1.5 hours, while for experienced participants the sessions need a time slot of 2.5 hours, depending on the level of post-session feedback and coaching desired.

Objectives

The participants are required to respond to clients, manage risks and liquidity and generate profits. This experience provides insights into the dynamics of the financial markets. Depending on the desired objectives, separate scenarios can be utilised and the amount of feedback varied. For example, the objectives for a simple session could be to provide an introduction to and basic understanding of the dynamics of a specific market, while a complex session may be instructional for learning e.g. how to handle market emotion, technical trading, fundamental analysis, liquidity, clients and peer handling and arbitrage. Furthermore, in more complex sessions participants will learn to identify and develop their style of trading and learn how and when to be consistent in their trading.

Instruments and scenarios

The instruments that can be traded in the simulation are:

- Currencies
- Equities
- Indices
- Commodities
- Bonds
- Fictitious instruments

Scenarios can be developed for specific needs and can be adjusted to any global or regional financial market environment. For instance, simple scenarios can be run trading a single share or currency. On the other hand, more complex scenarios can be run using multiple convertible instruments that can be arbitraged with the underlying shares, options, debt, credit and currency. Theoretically, scenarios could be developed using a multitude of instruments. However, in our experience, employing more than five instruments becomes extremely challenging and the achievement of the learning objectives is weakened.

Language

We can currently provide the trading simulation in the following languages:

- English
- Dutch
- French
- Spanish
- Swedish
- Italian

We can translate the programme into other languages, but this would require some development costs, as well as translators for the sessions.

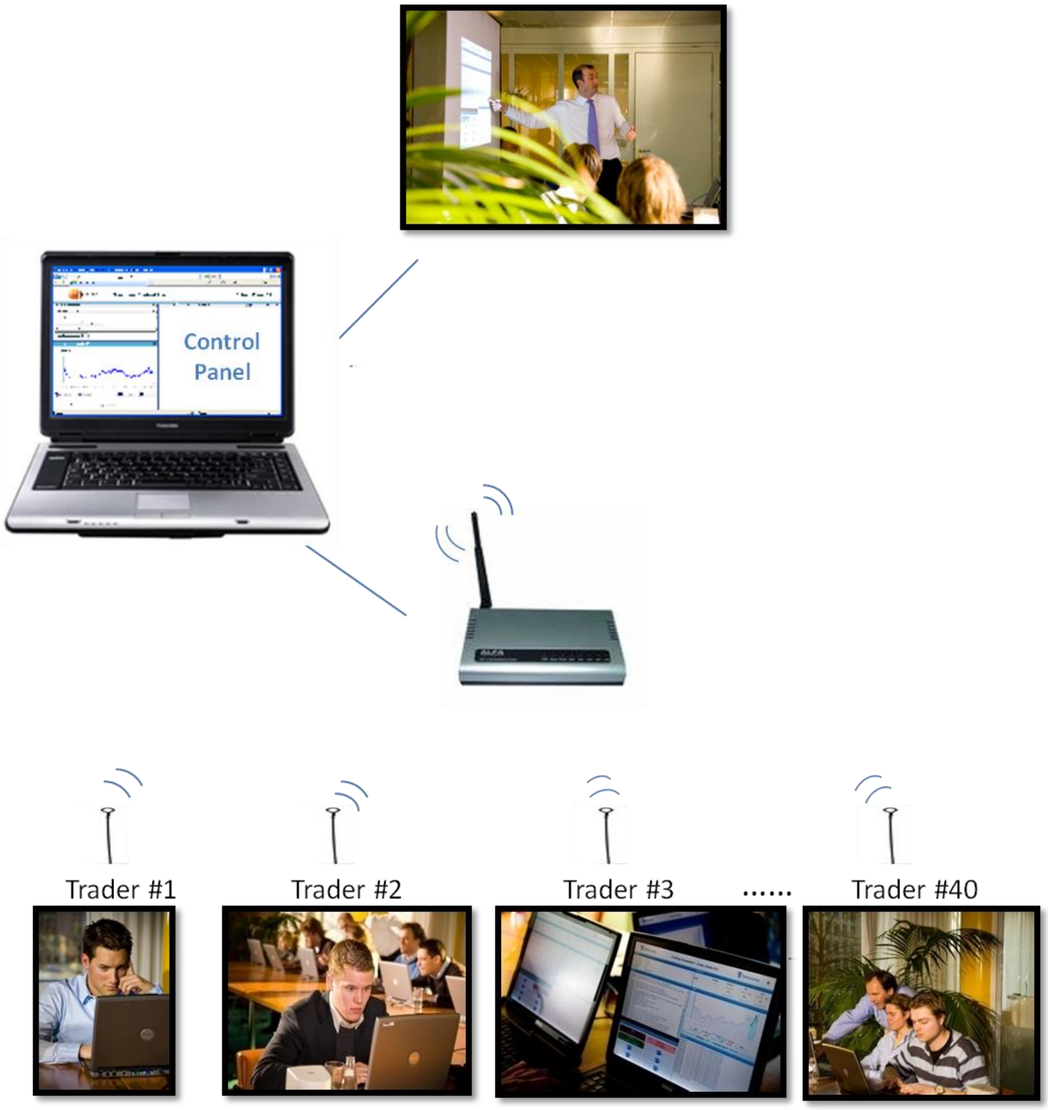
Evaluation

After the session an overall evaluation and debrief is conducted, during which the participants review with the instructor specific aspects including the following:

- Profit and loss (P&L)
- Risk profile
- Response time to clients and peers
- Pricing accuracy and speed
- Identifying trading styles (market maker versus market taker or breakout versus range trading)
- Position(ing) in the market
- Position (and P&L) compared to the movements in the market?
- Knowledge and awareness of market developments during the session (quizzes during session)
- Reaction to news and market changes
- Managing liquidity

Setup of the simulation

- Closed Format - Stand alone
  A local network is set up using a portable server, to which all of the computers are connected
- Open Format - Through the Internet
  The internet based server handles all the participants. This is an easier way of running the simulation. However, broad-band Internet access is required.



Dealer screen

In the screen-shot above, you can see the layout of a participant's (dealer) screen. The dealer will have to follow the news and the related markets in order to follow or predict movements. Also, the dealer can use trade history (technical analysis) to adjust their view as they go along. During the session the dealer completes trades with clients, brokers and other dealings by making and receiving calls. Furthermore, the dealer can enter input bid/offer prices in market. The dealer must key a constant on his/her position, risk limits and the impact of changing prices on current and future (marked to market) profitability.