Market Simulation Games Promote Education, Fun, Sense of Community

Jeff Buckstein, Canwest News Service

Published: Thursday, October 09, 2008

Brad Halvorsen not only loves playing an online market simulation game called Wall Street Survivor, he's become pretty proficient at it, having won up to $5,000 in monetary prizes by besting thousands of competitors with his winning stock picks.

Ironically, the 43-year old public relations professional has ``never purchased a real-world stock in my life. And when I first started doing this, I really had zero knowledge of the stock markets," says Halvorsen. But he says he's learned a lot about how the markets work by playing the online simulation.

That's one of the key purposes of this type of game - to educate people about the markets, says Mark Berger, the senior director of marketing for Stock- Trak Group Inc. in Montreal, a 17-year old firm that produces market simulation software, including Wall Street Survivor.

FinancialPost.com is also using Stock-Trak powered software for its Financial Post Stock Market Challenge contest, running through Jan. 16, 2009.

``There are different reasons why people play. For instance, if you're a student, you might just be interested in learning about how the stock market works (or) in having some fun playing with your friends," says Berger. ``If you're an older person, perhaps you've let (somebody else) manage your retirement money all your life, but now you've accumulated quite a nest egg and want to start thinking about managing your own."

Once players feel comfortable with how investing is done and believe they have a track record that suggests they can be reasonably successful investing on their own, they might want to try it in the real markets, he adds.

Moshe Milevsky, an associate professor of finance at York University's Schulich School of Business in Toronto, has used simulation software to teach undergraduate and graduate students how the stock market functions. ``A simulation game is an ideal pedagogical tool to teach people about the stock market. It's an excellent way for them to learn the architecture and mechanics" of how the market works, he says.

What these games do, says Milevsky, is help players understand questions such as ``What does it mean to buy and to sell? What is the difference between putting in a limit order versus a market order? What does it mean for the stock price to go up and down?" - as well as terms such as margin, leverage and options, among others.

In terms of feedback, ``we've heard nothing but good things from students." In fact, Milevsky says, ``I wish I'd had that when I was in college 20 years ago. I would have learned a lot more about the markets in that environment than (just) having to read textbooks and check the Wall Street Journal."

Online stock simulation games are designed to mimic the markets. ``We take the same stock market feeds that power any brokerage house and run it through our simulation software. Instead of people depositing real money we create a fictional account for them," explains Berger.

But while simulation games are an excellent educational tool, Milevsky says the strategies players need to employ to win online don't bear any resemblance to the strategies a prudent investor needs to follow while investing and protecting their money in the real world.

In an online contest, the goal is to hold the best performing stock portfolio in the allotted time in order to win a prize. But there are no real consequences for failure because even if the stock value drops all the way down to zero nothing is really lost.

From a mathematical standpoint, this means that contestants need to search for what Milevsky calls ``negative beta investments" - stocks that don't move with the market as a whole. ``If you're in a contest against many other participants you want your stock to be counter-cyclical to the rest of the market (such that) when they're down you want to be up. It's about negative correlation."

In contrast, when investing for your own wealth, factors such as risk tolerance, investment horizon and diversification enter into the equation. ``All the things that we claim to be good ideas in real life are actually very bad ideas in a game," Milevsky says.

Consequently, ``you will pick your stocks very differently than if this is real money. You'll take risks that you never would in real life. The name of the game is to pick a stock that's very volatile and hope that stock goes up by the time the contest is over."

Which is exactly what Halvorsen does. To win a contest against thousands of other players, ``you need to somehow differentiate yourself from the rest of the field. The more aggressive strategy the better - and my strategy has been more go-for-broke," he says, adding that's not something he'd do in real life.

Although the simulation games are friendly affairs, that doesn't mean the competition doesn't get intense.

``We have an entire support team here handling calls and e-mails from people questioning about their accounts, about their stocks," asking questions like ```Why didn't this order fill at this price? Why does my account show this amount,'" says Berger.

``We basically run a brokerage here," he jokes.

© CanWest News Service 2008

http://www.canada.com/topics/news/world/story.html?id=9a837eec-7904-4eae-ab8a-59b16fc3c2ea