



Maximum Percent Equity

Maximum percent equity is a rule limiting the total amount of equity which can be invested in one security at the time of trade. Please check with your local Stock Market Game™ Program coordinator since this rule varies in different states. A state with no limit would have 100% maximum equity. A state with a maximum equity of 20% can use no more than 20% of their current equity times 2 (which accounts for their ability to buy on margin). Let's see some examples:

Note: For simplification, the 2% commission has not been included in the sample equations. Also, the system will always check for available buying power.

- Maximum percent equity is set at 20%
- Initial portfolio and Total Equity is equal to \$100,000
- Total Equity times 2 is \$200,000
- 20% of \$200,000 is \$40,000
- Team A would like to buy IBM. Yesterday's CLOSING price was \$100
- Maximum numbers of shares that can be bought is $\$40,000/\$100 = 400$

In the above equation the maximum number of shares that can be bought are 400 shares. If the total price of the shares increases above the maximum percent equity you can still keep your shares however you will not be able to purchase any more shares of that stock.

- Maximum Equity is set at 30%
- Total Equity is \$130,000
- Total Equity times 2 is \$260,000
- 30% of \$260,000 is \$78,000
- Team B currently has 250 shares of IBM in their portfolio
- Team B would like to buy IBM. Yesterday's CLOSING price was \$100
- Team B's current value of IBM holdings is \$25,000
- Amount available for new trade is $\$78,000$ minus $\$25,000 = \$53,000$
- Maximum new shares of IBM is $\$53,000/\$100 = 530$

In the above equation the maximum number of shares that can be bought are 530 shares. Let's show another example in which the above sample still applies, however Team B also has 100 shares of IBM PENDING.

- Team B's current value of IBM holdings is still \$25,000
- Team B's pending value of IBM holdings is \$10,000
- Amount available for new trade is now $\$78,000$ minus $\$35,000 = \$43,000$
- Maximum new shares of IBM is $\$43,000/\$100 = 430$

So now Team B only has the ability to buy 430 shares due to their pending shares.

The **Maximum percent equity** rule is in effect to help SMG participants learn to diversify their portfolios. If a team does not maintain a total equity greater than or equal to the maximum percent equity, the team will receive a margin call or a warning that the team needs to modify their holdings to comply with the maximum percent equity rule.