



FOUNDATION

Maximum Percent Equity

Maximum Percent Equity is a rule created by The Stock Market Game™ (SMG) that limits the total amount of equity that can be invested in a single security at the time of trade. The purpose of this rule is to teach participants to diversify their portfolios.

If a team does not maintain a total equity greater than or equal to the maximum percent equity, they will receive a margin call or a warning that the team needs to modify their holdings to comply with the maximum percent equity rule.

Please review the local rules for your SMG session or check with your local SMG Coordinator because the Maximum Percent Equity rule varies from state-to-state.

A Maximum Percent Equity rule of 20% means that a team cannot invest more than 20% of their current equity times 1.5 (because they can buy on margin) in a single company.

Here are some examples:

Note: For simplification, the usual fees and commissions have not been included in the sample equations.

Example 1:

If the Maximum percent equity is 20%
The initial portfolio and Total Equity is \$100,000
Buying Power = \$150,000 (Total Equity times 1.5)
20% of \$150,000 is \$30,000

Team A would like to buy IBM. Yesterday's CLOSING price was \$100
Maximum numbers of shares that can be bought is $\$30,000/\$100 = 300$

In the above equation, the maximum number of shares that can be bought is 300.

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.



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Example 2:

Maximum Equity is set at 30%
Total Equity is \$130,000
Buying Power = \$195,000
30% of \$195,000 is \$58,500

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 \$58,500 minus \$25,000 = \$33,500
Maximum new shares of IBM is $\$33,500 / \$100 = 335$

In the above equation the maximum number of shares that can be bought are 335 shares.

Example 3:

In this example, Team B has 100 shares of IBM in Pending Transactions in addition to the holdings described in **Example 2**.

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 \$58,500 minus \$35,000 = \$23,500
Maximum new shares of IBM is $\$23,500 / \$100 = 235$

So now Team B only has the ability to buy 235 shares due to their pending shares.