Case Questions: The Misadventures of Daring Dave
Finance 4385

Please come to class prepared to “lead” the discussion of the below listed case questions.

**Monday**
What is the expected cash flow for a 1000-share short sale? If Dave had used the broker’s entire extended margin loan, how many shares could Dave have purchased Monday morning? What is Dave’s total return as of the end of day on Monday? Using the brokerage statement, explain the mechanics of margin accounting.

**Tuesday**
What is the average price of Dave’s position as of the end of day on Tuesday? What is Dave’s total return as of the end of day on Tuesday? What would his return have been if he had not borrowed on margin?

**Wednesday**
What would Dave’s equity be if the price of KNIGHT had increased to $15.00? Did Dave have any other alternatives to selling 9,000 shares at $9.00? What is Dave’s total return as of the end of day on Wednesday?

**Thursday**
Could Dave have sold fewer than 5,000 shares and met the margin call? What is Dave’s total return as of the end of day on Thursday?

**Friday**
Given that Dave had indeed been right on the stock (KNIGHT was up 10% on the week), why did he lose so much money? What would Dave’s return have been had he not borrowed on margin? Was borrowing Dave’s fundamental mistake?