Westbank Financials Equity Strategy

2025 DECA
Stock Market Game

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I. Executive Summary

From September 9th, 2024, to December 6th, 2024, Westbank Financials grew $100,000 to an impressive **$237,271.32**, outperforming the S&P 500 by **125.92%**.

This significant growth in our managed portfolio was driven by our strategies revolving around SPACs[1], mergers & acquisitions, volume analysis, and diversification.

Throughout this simulation, Westbank managed its portfolio with three primary objectives in mind:
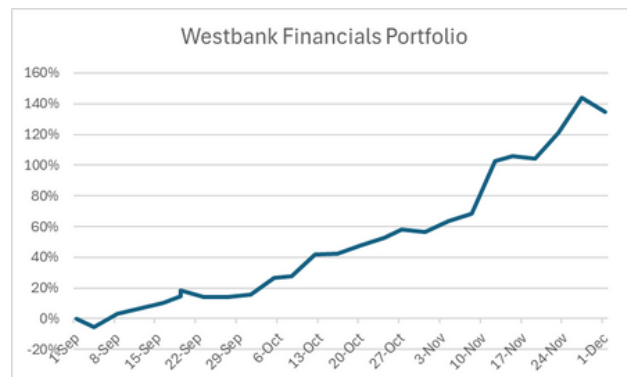
1. Produce optimal returns by short-selling de-SPACs[2] and SPAC securities.
2. Balance risk and produce steady returns through investments in stocks, mutual funds, and bonds.
3. Adaptability through adjustment of portfolio allocation according to current market conditions.

To ensure our objectives are met, we utilize our in-house SPAC Strategy Investment Framework (SSIF).

Screen: Employ our internally engineered proprietary screening algorithm to create a list of potential SPACs and recently deSPACed companies. Our algorithm looks for unusual price action, significant influxes of trading volume, and upcoming news catalysts.

Strategize: Custom-engineered data extraction tool sorts through SEC EDGAR[3] filings to pinpoint unusual insider activity or potential deSPAC news in the 8-K[4] filings. We use this data to create an appropriate risk management plan for the underlying security.

Invest: Deploy capital into securities after passing our requirements.

Fundamentals: We perform a fundamental analysis of the company post-de-SPAC to determine a fair valuation and adjust our exit plan accordingly.

Westbank Financials constructed a successful portfolio by identifying the correlations between SPAC internal functions and price behavior. This, combined with an adjustable risk management strategy and diversification with ETFs, bonds, and mutual funds, has resulted in a high-yield investment portfolio. In the future, we intend to conduct further research on SPAC price behavior to expand our data set and enhance our effectiveness. To improve risk management, we also intend to utilize options hedging to better protect our investments from volatility.

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1 Special Purpose Acquisition Companies
2 A merger event shell company and a private company with the intention of public
3 EDGAR is the SEC's online database holding financial and corporate disclosures
4 A report public companies must file to announce major events

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II. Analysis

Phase 1: High-Risk Tolerance
September 13th - October 4th
During this stage, we prioritized establishing a competitive lead over other firms while diversifying our investment portfolio. We allocated portions of our investment portfolio toward bonds, mutual funds, and ETFs. The remaining available funds were allocated towards shorting viable SPAC securities through our SSIF strategy, maintaining a risk tolerance of 30% of our portfolio value per position.

10% ($10,000) mutual funds, 10% ($10,000) bonds, and 30% SSIF short.
$41,744.22 equity increase | 21 days | 39.37% above S&P 500

Notable trades during this phase are represented in the table below:

Ticker	Position	Net Gains ($)
TR_912810FM5	Buy	$312.50
SPY	Buy	$917.20
FXAIX	Buy	$874.91
NOVV	Short Sell	$29,859

Phase 2: Medium-Risk Tolerance and Hedging
October 5th - November 6th
Leading up to the 2024 presidential elections, we focused on maintaining consistency and reducing risk due to the volatile market environment. We kept the maximum allocation threshold the same in dollar amount, $30,000, but as our portfolio grew, the overall portfolio allocation per position in percent shrank to ensure consistency and substantial returns. To account for the tense geopolitical environment and its effects on market pricing, we purchased $DJT. Trump is known for his free market policies, which could lead to further deregulation within the IPO market, potentially positively impacting SPAC pricing. Purchasing $DJT functions as a means to hedge against this potential increase, as it is correlated to the success of Donald Trump's presidential campaign. Additionally, this investment helps mitigate the risk posed by competing firms that are heavily invested in $DJT.

$30,000 - $40,000 per high volatility short, and $30,000 $DJT hedge.
$61,142.39 equity increase | 30 days | 57.05% above S&P 500

Notable trades during this phase are represented in the table below:

Ticker	Position	Net Gains ($)
ELPW	Short Sell	$39,931
TMTC	Short Sell	$7,076.12
DJT	Buy	$2,840

Phase 3: Low-Risk Tolerance and Hedging
November 6th - December 6th
In the remaining time period, we focused on reducing risk and prioritizing precision in our trades. Given the low frequency of our SSIF strategy, we had spent previous phases shorting with an increased focus on expansion and in doing so, increased our risk tolerance. However, this approach shifted during phase 3, we had already achieved a substantial initial gain. This allowed us to decrease our portfolio allocation percent per position while still generating satisfactory results. This consequently led to us engaging in even fewer positions.

$30,000-$40,000 per high volatility short.
$34,385.11 increase in equity | 30 days | 31.14% above S&P 500

Notable trades during this phase are represented in the table below:

Ticker	Position	Net Gains ($)
INAQ	Short Sell	$5,973.10
ELPW	Short Sell	$19,965.23

III. Rationale

A. Prior Research
Our research that ultimately led to the creation of the SSIF strategy began last fiscal year while analyzing financial screeners. We noticed a strange pattern of dramatic sell-offs among shell companies in particular. After conducting further research and closely monitoring these sell-offs, we found that the majority were concentrated within a specific subset of shell companies known as SPACs. A SPAC is a shell company that raises capital through public offerings to acquire or merge with private companies. This observation prompted us to examine the de-SPAC process in greater detail, with a particular focus on the post-merger performance of these companies.

To quantify this phenomenon, we compiled and analyzed a comprehensive dataset of over 550 de-SPAC transactions spanning from 2016 to 2024. We utilized Python, Yahoo Finance, and financial data libraries to analyze post-merger performance. Our methodology included:

1. Tracking the opening prices of SPACs on their first trading day post-merger.
2. Calculating the maximum potential drawdown for short positions, to assess potential profit margins.
3. Tracking the number of days until the stock reaches its lowest point to evaluate the time frame needed to profit off de-SPACs.

Consider the following entry of our finalized dataset:

| Ticker	Percent Min	Percent Max	Date Open	Date Min	Date Max	Missing Vals
ADGM	-50.0	16.75	2024-08-01	6	1	Y

From our analysis, these were our key findings:
- 99% of de-SPACs fell below their initial post-merger price.
- 83.3% of the time, the underlying stock falls over 50%. Only in 1% of the cases, the price of the stock sustains an increase post merger.
- Sell-offs were rapid and severe, often occurring within days or weeks.

Our research uncovered systemic issues within the SPAC ecosystem. We identified a fundamental misalignment of incentives among SPAC sponsors, target company executives, and public investors. This issue creates what we term the "SPAC Paradox", which ultimately harms public shareholders while remaining attractive to insiders.

Questionable Valuation: NYU Professor Michael Ohlrogge noted

"These companies were aware the valuation the SPAC was giving them was exceptionally generous. It's a no-brainer to take advantage of that."[5]

Selloff of SPACs
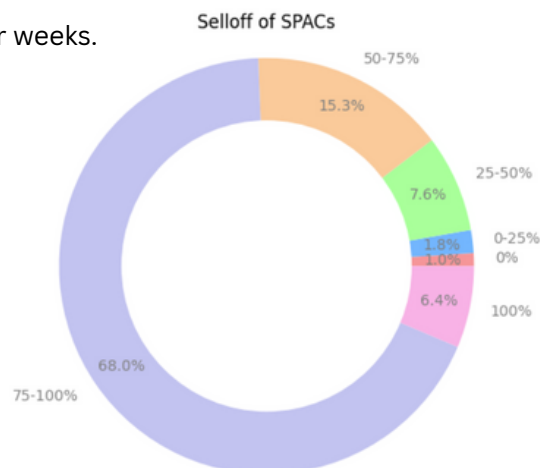
*Figure inside the circle represent the percentage of total SPACs we analyzed while the figure outside the circle represents the amount of sell off

Here are our key findings on insider behavior:
- A recent study in the Wall Street Journal noted that "[out of] 460 companies that did SPAC deals, 232 [consisted of] insider sales based on a review of SEC filings."[5]
- Asymmetric Reward Structure:
  - SPAC sponsors typically receive 20-25% of founder shares at nominal costs, usually $0.0001 per share.
  - Target company executives often secure lump sum payouts and stock warrants.
  - Public shareholders bear all the downside risk.

Value of deSPACs after 181 days
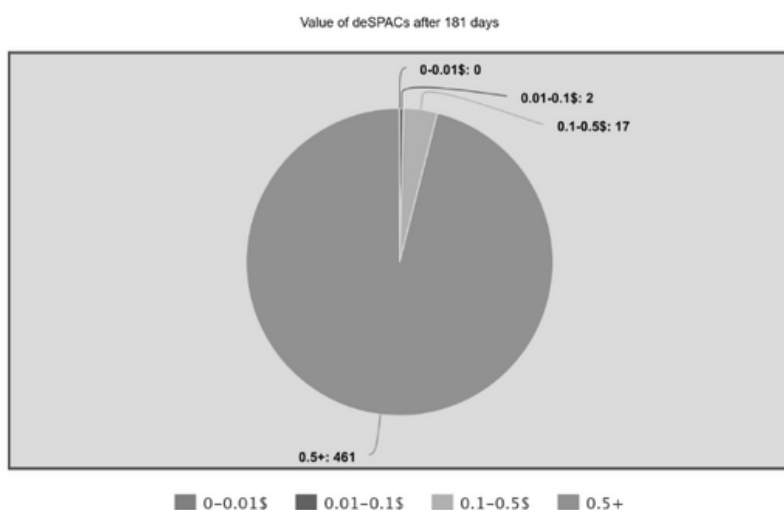
Our data indicates none of the 480 post-de-SPAC publicly listed companies fell below $0.01 after 181 days following their merger date. Since the typical lockup period for founder shares is between 180-365 days[6], this data demonstrates how lucrative de-SPACs are for the founders, even if the companies experience a decline post-IPO.[7]

5 Source: McGinty et al.
6 Source: Moon 7-8
7 Source: Anconetani et al.

SPAC Paradox visualized in the table below:

Party	Upfront Cost	Potential Reward	Risk Exposure
SPAC Sponsors	Minimal (~$25k typically)	20-25% equity post-merger	Only if deal fails
Target Executives	None	Cash bonuses, stock awards, founder shares	Minimal
Public Investors	Full share price (~$10/share)	Opportunity to invest in a newly listed company	Nearly 100%

This consistent pattern of sell-offs suggests that SPACs tend to be overvalued at the time of their merger, with prices quickly correcting to reflect their true underlying value.

Given this context, we had identified our target security to act on this fiscal year. SPACs represented a high-probability opportunity, supported by our own empirical evidence.

However, another question arose: How could we predict when a company would de-SPAC?

Our research has highlighted a systematic decline in post-merger SPACs, yet we still had to find the key to profitability: timing our entry before the broader market reacts. After a de-SPAC occurs, fair price is often already reflected in the underlying security's price, making our short sells less effective. To address this issue, we had to anticipate when a de-SPAC merger may occur and enter our positions beforehand. To do this, we focused on three critical signs:
1. Unusual Price & Volume Action
   i. We monitor for abnormal trading volume or price spikes in SPACs before any official merger.
      a. Example: A sudden surge of 50% or more in volume for a dormant SPAC often precedes a merger filing.
2. News Catalysts
   i. Even after merger announcements are announced on SEC EDGAR filings, we take advantage of delayed market reactions and hype. For instance, a SPAC may rally on merger news but fail to account for the weak fundamentals of the target company.
      a. Example: "Aspire Biopharma Holdings, Inc., Announces Public Listing on Nasdaq."

By utilizing our screening algorithm and data extraction tool, we effectively profited from this structural inefficiency, turning Wall Street's exploitation of SPACs into our competitive edge.

B. Diversification

To align with our risk management practices, we structured our portfolio to maintain exposure across multiple asset classes while preserving capital for our SSIF strategy. Our allocation included equities through $SPY, mutual funds through $FXAIX, and US treasuries through TR_912810FM5.

While our core focus on SPACs, we maintained a disciplined approach to exposure limits and capital deployment. We put position caps on all our positions, that way no single SSIF position exceeded 20% of our portfolio value. This helped mitigate concentration and upside risk. Through our rigorous research of over 550 de-SPACs from the past 8 years, we found that there were no instances in which the underlying equity rose by over 100% overnight. However, we still enforced a position cap to guard against unforeseen outliers and avoid look-ahead bias. Additionally, a significant portion of our assets remained in cash, serving as both a risk management tool and liquidity reserve.

C. Selected Stocks:

SSIF trades:

Ticker $OLD, $NEW	Catalyst	Short Price Cover Price
$NOVV $RMSG	~346% increase in price Volume spike	$37 $1.36
$PTWO $SBC	Merger announcement	$10.50 $8.00
$FIAC $DEVS	Unusual price action Volume spike	$11.23 $1.19
$VEEA	Merger announcement ~341% increase in price	$12.25 $7.50
$XFIN $BDMD	~30% increase in price	$11.59 $4.32
$HCVI	~24% increase in price Volume spike	$11.20 $10.54

Featured trades:

*Shorted at $37 and exited at $1.36

*Shorted at $11.23 and exited at $1.19

*Shorted at $11.59 and exited at $4.32

$LCW $INV	~17% increase in price Merger announcement	$11.70 $11.40
$TMTC $ELPW	~12% increase in price	$11.70 $1.61
$DPCS	*Now delisted, merger failed	$11.93 $12.60
$INAQ $AMOD	~20% increase from lows Unusual price action Merger announcement	$11.30 $10.50
$THCP $CNCK	Volume spike	$11.15 $13.50
$BLAC $OSRH	~24% increase in price Volume spike	$11.66 $11.60

*Shorted at $11.70 and exited at $1.61

Loss disclaimer:

We maintain a 87.5% through this simulation. Losses or positions that we broke even[8] on were concentrated within our SSIF strategy. These 'losses' were a result of our decisions to withdraw our capital in order to accrue cash for other potential investments. As shown in the graph below, all of the tickers we 'lossed' on are trading well below our entry price as of April 4th, 2025. Withdrawing capital was necessary due to the short 3-month time frame we were operating within.

Other trades:

Ticker	Catalyst	Buy Price Sell Price
TR_912810 FM5	Treasury bill	$10,000 $10,312
$SPY	Stable, growth focused ETF	$536.7 $603.96
FXAIX	S&P 500 mutual fund	$11,775 $12,650
$DJT	Hedge against pro-SPAC policies and competing firms	$32 $35.92

Ticker	Current Price
$OSRH	$1.95
$CNCK	$4.50
$AMOD	$1.17
$INV	$4.71
$HCVI	$7.90

As shown in the graph[9], with the exception of $DPCS[10], all losses have now turned into profit, just 4 months since the simulation ended. Simulations with strict time frames often force us to make difficult decisions, including cutting positions early.

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8   Westbank Financials considers break even as selling within a dollar range
     of the entry price
9   The chart shows prices as of April 4th, 2025. The underlying stock's all time low is
     likely lower than the price shown in the graph
10 $DPCS delisted while it was at a higher price than our entry

IV. Conclusion

A. Strategy Effectiveness
Our investment approach during the simulation was highly successful in achieving our collective objective of maximizing returns and managing risk. By employing a disciplined process of portfolio division and risk assessment, we were able to make sure that we possessed a standardized decision-making process that led to consistent portfolio appreciation at an 87% win rate, even amidst the inherent volatility of SPACs.

One of the key contributors to our success was our three-phase strategy, SSIF. In the first phase, we invested in growth prospects by using both technical and fundamental analysis to select low-priced by promising assets. Throughout the competition, we adjusted our risk appetite to strike a balance between riskier shorts and stability. In the final phase, our primary focus shifted to strategic risk reduction, emphasizing capital preservation and minimizing exposure to high-volatility positions. This flexibility proved crucial in maintaining long-term gains and reducing potential losses.

Additionally, diversification formed the cornerstone of our risk management strategy. By investing in SPAC companies across various sectors and utilizing stop-losses, we effectively insured ourselves against volatile market movements. Our positions in bonds, mutual funds, and ETFs also provided a hedge against volatility, contributing to overall portfolio stability.

Through rigorous research, disciplined execution, and careful risk control, our portfolio consistently outperformed benchmarks and competing firms. Our performance underscores our value on making informed and disciplined investment decisions.

B. Changes in Strategy for Future Investments
In the future, our investment strategy will become more streamlined by incorporating derivatives and volatility-sensitive hedging techniques to maximize returns on a risk-adjusted basis while protecting our portfolio against downside risk. To safeguard our capital against the risk of short squeezes, plan to add call options to hedge against unexpected rallies in the securities we short. This approach will help us limit our losses while maintaining our long-term view that the de-SPAC'ed security will be worth less in the future.

Given the high-beta nature of de-SPACs, we plan to include $VIX calls or $SPY puts as macro hedges to address potential market downturns. Instead of holding cash, we will seek to utilize more of our liquidity by selling covered calls on low-volatility bonds or ETFs to earn additional income while preserving liquidity. We will also explore synthetic short positions by using put spreads to have a more controlled risk exposure.

An advantage of this future plan is the flexibility it will add to our investment philosophy. Market sentiment can change rapidly, and having the ability to adjust our strategy without compromising our investment principles is crucial. Future iterations of our SSIF strategy will focus on advanced sector diversification and enhanced risk modeling to address both short-term results and long-term viability.

With these improvements implemented, we aim to be even more efficient in the upcoming fiscal year, generating sustainable growth while maintaining an appropriate level of risk.

V. Charts/Diagrams of Portfolio Performance
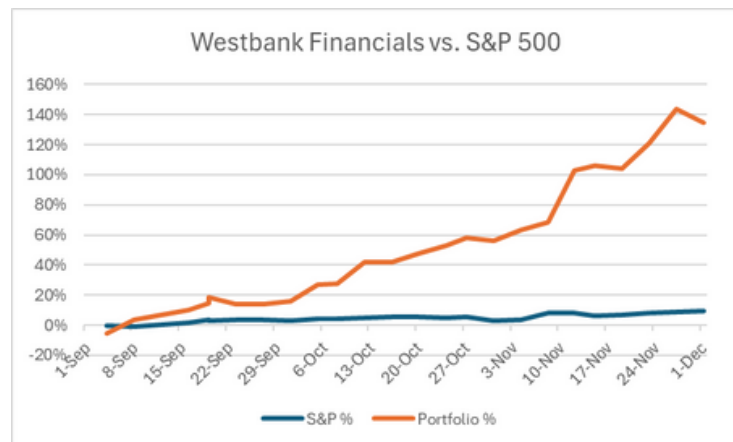
The graph comparing our portfolio's performance to the S&P 500 highlights the effectiveness and consistency of our investment strategy. While the S&P 500 showed a relatively steady increase, our portfolio achieved sharper and more aggressive growth, particularly during periods when we executed high-conviction SPAC shorts. The divergence in performance reflects not only our strong execution but also the benefits of disciplined risk management and our dynamic three-phase allocation model, which adapts to align with macroeconomic conditions and market sentiment.

Our equity curve illustrates the underlying momentum and compound growth of our portfolio throughout the simulation. The equity curve highlights periods of exponential acceleration, particularly as we began scaling our position sizes in response to successful SSIF entries. The dotted exponential trendline emphasizes the strength of our model and confirms the relationship between increased conviction in our positions and realized returns. Furthermore, the curve's smooth progression, free from major pullbacks, shows how our consistent application of research, timing, and risk controls has enabled us to maintain growth without excessive volatility.
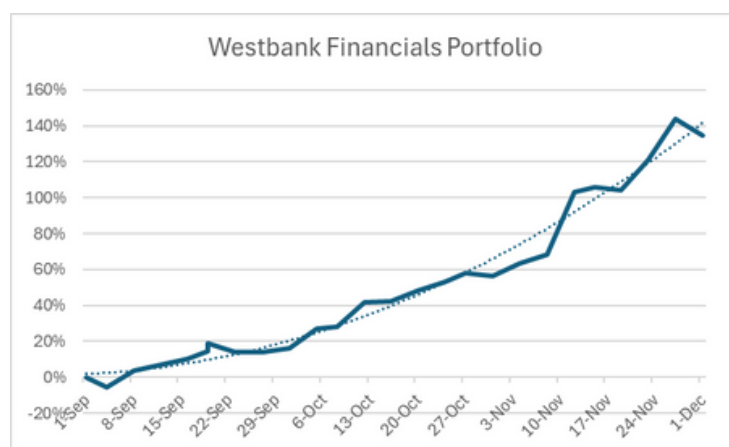
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