UNIVERSITY OF THE PEOPLE

BUS 1103-01 Microeconomics- AY2024-T1

Written Assignment Unit 7

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As a new investor, I am looking to build a balanced portfolio that can generate attractive returns over time while minimizing risk through diversification. After analyzing my investment goals, time horizon, and risk tolerance, I have selected 4 stocks that I believe present compelling opportunities while also providing diversity across market sectors. In this assignment, I will analyze each stock, discuss why I chose them, evaluate the risks and projected returns, and assess how they fit within my broader investment strategy.

DATED: 2023/10/21

Symbol	***Name***	***Price***	***Change***	***%Change***	***Volume***
INTC	Intel Corporation	34.92	-0.75	-2.10%	32.127M
CCL	Carnival Corporation & plc	11.03	-0.36	-3.16%	33.41M
NIO	NIO Inc.	7.58	-0.11	-1.43%	31.663M
RIVN	Rivian Automotive, Inc.	16.72	-0.44	-2.56%	30.451M

1. Discuss why you have chosen the four stocks as an investor.

I selected Intel because it has been a dominant player in the semiconductor industry for decades and pays a steady dividend while I wait to see if new management can help the company innovate and regain market share.

Carnival Cruise Lines provides exposure to the recovering travel and leisure sector. As the world's largest cruise operator, I believe Carnival can rebound strongly as COVID restrictions ease and pent-up demand for cruising drives growth.

NIO gives me access to the rapidly growing electric vehicle market with significant upside potential. The company is a top EV brand in China and expanding into Europe. Recent stock price declines due to supply chain challenges create an attractive entry point.

Rivian allows me to invest early in an emerging EV truck startup. Pre-orders for Rivian's launch vehicle have been strong, and it has financial backing from Amazon. If Rivian executes well, I see substantial growth ahead as the EV pickup market expands.

I chose this basket of stocks to gain diversified exposure across technology, travel, electric vehicles, and dividends - sectors. These stocks also provide a balance of stability and higher growth potential. While individual stocks carry more risk than broad index funds, I believe these picks provide unique opportunities worth the added risk.

2. Discuss the trends of each stock's performance over time.

Intel's stock price has been relatively flat over the past 5 years, hovering in the $40-$60 range. This indicates declining performance and loss of market share compared to its previous rapid growth decades ago when it was the dominant chipmaker. Intensifying competition has pressured Intel's margins and market capitalization. However, the stock offers stability with its dividend.

Carnival's stock trended upwards for years as demand for cruising grew, reaching a peak of around $70 in early 2020. The COVID-19 shutdown caused the stock to plunge below $10 as cruising halted. It remains depressed compared to pre-pandemic levels but has recovered from initial lows on optimism for the cruise industry's eventual rebound.

As a newly public company in 2018, NIO's stock price has been highly volatile. It saw huge gains in 2020 amid surging demand for electric vehicles, briefly surpassing $60. But production challenges, inflation, and supply chain issues weighed on the stock in 2022, dropping it back below $20. Long-term, rapid EV adoption could propel growth.

Rivian IPO'ed in late 2021 around $100 per share before surging to near $180. The stock has since declined significantly as the company missed early production targets. However, deliveries are ramping up and strong pre-order demand signals long-term potential upside if execution improves.

Intel and Carnival's stocks have languished recently for different reasons, while the two younger EV companies have seen large swings typical of high-growth stocks with uncertain futures. But long-term trends point to growth opportunities in EVs and semiconductors.

3. Explain the rate of return for each of the stocks you have chosen.

Intel - I estimate Intel's stock can generate a moderate return in the range of 5-8% annually on average over the next 5 years. These factors in continued dividend payments providing around a 3% yield, some stock price appreciation if new management restores competitiveness, but also the risk of further market share losses limiting upside.

Carnival - As cruising recovers, I believe Carnival could produce annualized returns of 10-15% over the next 5 years. This factors significant price appreciation back towards its historical valuation as demand and profits recover, along with any reinstated dividends. However, further COVID disruptions present downside risk.

NIO - Given the growth potential in the EV market, I think NIO could generate annual returns of 15-25% on average over a 5–10-year period if they continue expanding production and sales. This factors substantial stock price appreciation, although the competitive landscape carries risk.

Rivian - This is the most speculative of the stocks, but I see possible upside of 20-30% annually over the next decade if Rivian establishes itself as a major player in EV trucks and SUVs. However, it faces risks of failure if execution stumbles.

The EV stocks carry the most return potential but also the greatest risk, while Intel provides a more conservative return profile. Overall, I believe each stock can generate double-digit average annual returns within their respective timeframes, aligning with my investment objectives.

4. Discuss the potential risks as an investor for each of the stocks that you have chosen.

Intel - The major risk is continued loss of market share in CPUs and data centers to competitors like AMD and Nvidia. Failing to innovate and resolve ongoing manufacturing delays could cause Intel to lag technologically and see shrinking revenues. This could lead to lower profits, decreasing dividends, and poor stock price performance.

Carnival - The greatest risk is a resurgence of COVID-19 or new variants that lead to renewed cruise shutdowns and travel restrictions. Demand could lag estimates if health concerns or economic factors curb consumer appetite for cruises longer term. Rising fuel costs, inflation, and debt loads also pose challenges.

NIO - Intensifying competition in EVs, especially from mainstream automakers, could impede growth. Extended supply chain disruptions limiting production volumes present a risk. NIO is not yet profitable and burning cash, so financial risks exist if funding needs increase. Geopolitics and economic conditions in China add uncertainty.

Rivian - As a new entrant into a competitive industry, Rivian faces risks of production delays, quality problems, or insufficient demand. Their limited product range leaves them exposed if the buyer's tastes change. Cash burn poses financing risks, and bigger rivals could potentially undercut pricing.

Each company faces varying competitive and economic risks that could negatively impact their stock price performance. However, I believe the potential returns outweigh the risks within the context of my diversified portfolio. I will regularly review these positions and reassess the changing risk profiles.

5. Based on your research with the stocks you picked, explain what you think is the best investment type for you (bank accounts, bonds, stocks, mutual funds, or assets).

Based on analyzing these individual stocks and their risk-return profiles, I believe owning a mix of stocks and stock mutual funds is the right investment strategy for me.

The research on my chosen stocks indicates that stocks, although riskier than bonds or bank accounts, tend to provide the highest long-term returns that align with my investing goals. The ability to pick specific companies also allows me to focus on industries and trends I find promising, like electric vehicles and semiconductors.

However, investing solely in individual stocks leaves my portfolio exposed to company-specific risks and lack of diversification. Adding mutual funds and ETFs that track broad stock indices helps mitigate this risk and smooth out volatility. I plan to build a core portfolio of low-cost index funds for stability and diversification.

I will also maintain some cash in savings accounts for liquidity and some exposure to bonds to hedge against stock market declines. But my research suggests keeping a significant allocation to stocks and stock funds to achieve the returns I will need over decades to meet my investing objectives, while keeping risks manageable through diversification.

The combination of individual stocks in promising sectors paired with broad index funds allows me to gain targeted exposure to growth opportunities while maintaining a balanced, diversified portfolio appropriate for my risk tolerance and investment timeline. This mix provides the right strategy for me as a young investor.

Reference:

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Word count: 900