

Trading Project Information

The goal is to place you in the position of portfolio managers who invest in companies linked to international trade. Each student will manage an imaginary amount of capital which will be invested in a stock. You may invest in a Canadian or foreign company. **Make sure the company you buy has profits linked to international trade.** A number of sites for obtaining free stock quotes are found below. If you invest in a foreign company you will need to convert Canadian dollars to a foreign currency to make your purchase. An internet site for exchange rate quotes as well as information on converting currencies is found below.

Using microeconomic models taught in the course as well as current events you must analyze the economy and financial markets to derive trading strategies for stocks. The amount of capital to be invested is one million Canadian dollars. Stock prices respond to expected profits. If something happens that may raise a company's profits its share price rises immediately. Likewise if something happens that may lower a company's profits its share price falls immediately. For example, if oil prices rise the oil companies will have greater profits so their share prices rise. Microeconomic events like product development and changes in demand or costs affect profits and therefore stock prices. Your task is to link microeconomics with investment decisions. You do not need any finance background to make sound trades.

A report must be submitted at the end of the term describing the overall strategy and reasons for key trades. It should include statements of trading profits/losses in Canadian dollars. **Analyze why the stock price changed in response to changes in trade policies of countries or market conditions. Excluding references the report should be no more than 3 single spaced pages in length.** It is possible to obtain capital gains by trading stocks at high frequency. The goal is keep informed of price movements in financial markets and current events such as the US-China trade war to ensure the best possible trades. To make the project manageable write up the reasons for trades and the results as they occur instead of waiting to the end of the course to compile results.

The grade will be determined by the quality of analysis rather than overall profitability. The point is to apply the economic models taught in the course to motivate the purchase of companies heavily involved in international trade. Using current events and

microeconomic analysis predict stock price movements. Microeconomics affects asset prices so the objective of the project is to use Microeconomics models to construct investment portfolios. When a trade generates a loss the goal is to explain why it happened using the models. Analyze why the stock price changed in response to changes in trade policies of countries or economic conditions. For instance, suppose the release of trade data causes depreciation of a stock you are holding. Explain why the data caused the price fall and why this did not conform to previously held expectations. High quality analysis will generate a high grade. A sample of the kind of analysis required is found on Quercus in the file `eco364trade2021.pdf`.

Stock and Foreign Exchange Quotes: There are several websites useful for accessing financial quotes free of charge.

1. Exchange Rate quotes are accessed via The Bank of Canada (bankofcanada.ca/rates/exchange/). Select the Daily Currency Converter. Select the foreign currency in the box marked "From". Select the Canadian dollar in the box marked "To" and press the box marked "Convert" to obtain the Canadian dollar price of the foreign currency.

2. Stock quotes:

- a. Nasdaq quotes (www.nasdaq.com/): Select "quotes" and key in the stock symbol or company name in the search box to access a quote.

- b. finance.yahoo.com. Type the stock symbol or company name into the "search finance" box to access a quote. This can be used for NYSE stocks.

- c. Toronto Stocks (Get Quotes-TMXmoney): There is a box where you can enter the company name or stock symbol to access a quote.

- d. London stock quotes: londonstockexchange.com lists companies quoted on the London Stock Exchange alphabetically and provides price quotes free of charge.

Possible Companies

1. Major companies are posting their corporate reports on their websites. You can use these as a source for earnings data, especially from export oriented operations.

2. All major Canadian banks have US operations so could be used in the project. You might also look at foreign banks or brokerage houses with large international operations. Examples are JP Morgan, Chase, Merrill Lynch, CitiBank, Deuchbank, Royal Bank, TD Bank, CIBC.

3. Mining, railway, airline and oil companies are involved in trade in one way or another. You might consider Barrick Gold, Vale, Exxon, BP, Royal Dutch Shell, CP Rail, Amtrack, Air Canada, American Airways.

4. Luxury goods, fashion companies and cosmetic companies have great interests in trade. You might look at Moet-Hennessy, Chanel or major distillers.

5. Agricultural or consumer products firms like Coca-Cola, PepsiCo, Monsanto, Procter and Gamble, Merck, Pfizer, MacDonald's have strong interests in international trade or operate in many markets. MacDonald's produces locally in many countries; in effect this US firm has exported its product by producing it locally worldwide.

6. You might look at car companies such as GM, Ford and Chrysler but emphasize their export potential.

7. Hotel chains such as Hyatt and Hilton can be viewed as being involved in international trade since they support tourism.

8. You should rely on sources other than the internet for current events and analysis of these events. Try The Wall Street Journal, The Economist, The Financial Times or The Report on Business in The Globe and Mail. The reason is that there's more analysis in these periodicals than internet sites. But the internet is good for stats on corporate earnings etc.

General Points

1. Provided you can obtain information and price quotes for companies traded on Continental European and Asian stock exchanges you are welcome to include those in the project. Using North American or UK companies is fine as well. Report profits and losses Canadian dollars. If you buy a foreign company you need to buy the currency in which it is priced first. The exchange rate is the Canadian dollar (CAD) price of 1 unit of foreign currency. For example, suppose you need 100,000 US dollars (USD) to buy some shares on the NYSE. If the exchange rate is 1.3 CAD per USD you will spend 130,000 CAD to get the 100,000 USD. Consider reporting profits in CAD. Multiply your total portfolio value in foreign currency by the exchange

rate after closing out your position. So if you sell your stocks for 105,000 USD and the exchange rate is 1.32 CAD you receive $105,000 \times 1.32$ CAD as a total return.

2. Cite all sources of corporate earnings, inflation rates, GDP statistics etc. Sources for lesser known facts about corporate strategies should be cited as well. The sample trade shows you one method of citation though any method is fine. Also you can use the style in the sample trade for the bibliography. Note when presenting stats in the body of the paper you must cite the source there. Essentially you note the source for the stats which appears in the bibliography directly in the body. **Failure to cite sources for stats and facts that are not widely known in the body of the text is a form of plagiarism.**

3. Be creative in your choice of companies. Make sure they are linked to international trade.

4. Do not direct most of your presentation to motivating trades. Instead, spend time discussing why the trades succeeded or failed. When analyzing these reasons pay attention to current events linked to trade. Using macroeconomic as well as microeconomic factors is fine but keep the emphasis on trade based micro analysis.

5. Comparative advantage, the notion that some countries are better at producing some goods or services than others, underlies many trade models. While competitive advantage cannot explain actual trade patterns it is useful for motivating purchasing a company's shares. For example, the quality of French products can be used to motivate buying Moet-Hennessy. Coca Cola owns Tropicana orange juice. The US has a comparative advantage in producing certain agricultural products such as oranges. Not all countries can produce oranges. This fact could motivate buying Coca Cola shares, especially if you can cite earnings from that segment of Coca Cola's business.

6 Motivate trades by accounting for effects covid have on companies.