

PORTFOLIO GAME : THE ANALYSIS II

Summary

Technical Analysis is not presented this week. The strategy for the week is to look at the historical movements of these indices briefly during previous month periods and assess a long term strategy for the coming weeks. Drawing on the works on psychology in Finance, this week's analysis is based on avoiding and minimizing Trading Biases.

A fundamental take using Options data, VIX, P/E - EPS, Economic factors and Market sentiments is the mantra for the week. After a steady relatively safe start with 30% investment, I am keen on taking a bit more risk with investing upto 50-55% of the net worth.

Week Ahead

- UK/Spain lockdown roadmap
- **JPY BOJ summary of Opinions**
- CNY Apr CPI numbers
- OPEC Monthly Report
- GBP UK Q1 Preliminary GDP, Industrial Production numbers
- EUR Mar Industrial Production
- EUR Germany to sell 30-year bonds
- On Thursday, the ECB's Economic Bulletin
- **USD Fed Chair Powell speaks on economy**
- **USD Weekly Initial Jobless Claims**
- **USD April inflation figures are due**

Oil prices seem to finally be settling on a range after a constructive two weeks of steady gains. Markets are becoming confident on a balance.

A Note on Trading Biases:

- A common investor according to me would probably sell his investment if he saw his investment return say – 10-20%. However, sometimes it makes sense to stay and hold forget about the markets and let strategy run its course (for passive trades)
- Traders have this tendency to get attracted to complex things, it just feels very nice to be looking at complex charts and making sense out of it. This is often called the 'illusion of control'. No matter how many indicators you load or how many numbers you crunch, there is no way you can control all the outcomes. Focus on stats/results might make sense better.
- 'Recency bias', gets you carried away with the latest information/event by making you turn a blind eye to the past events or facts. Hence, a reliable index strategy with consistent returns must be trusted rather than being jumpy. The only way to overcome recency bias is by taking cognizance of the wider picture. You should be in a position to see things from an overall perspective and not really a microscopic view.
- Anchoring is the use of irrelevant information, such as the purchase price of a security, as a reference for evaluating or estimating an unknown value of a financial instrument. Historical values, such as acquisition prices or high-water marks, are common anchors. This holds for values necessary to accomplish a certain objective, such as achieving a target return or generating a particular amount of net proceeds.
- In reality, the fundamental news may not really be a great trigger to drive the stock price higher. But then, at a subconscious level, you start looking for pieces of information that support your view. This is the confirmation bias.

S&P 500 :

- Open-Interest -
 - Shows resistance, support near 2800-3002 levels
- S&P500 VIX is down 11% and now going below Feb levels, indicating stability
- Oil recovery should help SP500 giants like EXON,CVX,Phillips66
- P/E levels seem to be discounted at the moment.



Nasdaq 100 :

- Shows resistance, support near 8940-9297 levels, turned +ve for 2020
- VIX down 9%
- Best performing stocks for nasdaq 2020 should continue uptrends

COMPANY	TICKER	PRICE CHANGE - 2020	PRICE CHANGE - 2019
Tesla Inc	US:TSLA	86.5%	25.7%
DexCom Inc.	US:DXCM	84.9%	82.6%
Regeneron Pharmaceuticals Inc.	US:REGN	49.1%	0.5%
Seattle Genetics Inc.	US:SGEN	42.9%	101.7%
Citrix Systems Inc.	US:CTXS	35.9%	8.2%
PayPal Holdings Inc	US:PYPL	35.2%	28.6%
MercadoLibre Inc.	US:MELI	35.0%	95.3%
Netflix Inc.	US:NFLX	34.9%	20.9%
Nvidia Corp.	US:NVDA	29.6%	76.3%
Amazon.com Inc.	US:AMZN	28.1%	23.0%
JD.com Inc. ADR Class A	US:JD	27.1%	68.3%
Vertex Pharmaceuticals Inc.	US:VRTX	23.3%	32.1%
Activision Blizzard Inc.	US:ATVI	23.0%	27.6%
T-Mobile US Inc.	US:TMUS	21.5%	23.3%
Gilead Sciences Inc.	US:GILD	19.4%	3.9%
Cadence Design Systems Inc.	US:CDNS	17.3%	59.5%
Microsoft Corp.	US:MSFT	16.4%	55.3%
Ebay Inc.	US:EBAY	14.6%	28.6%
Synopsys Inc.	US:SNPS	14.2%	65.2%
Advanced Micro Devices Inc.	US:AMD	13.3%	148.4%

DAX 30 :

- The area right around 10200 will become important again as it is a level that held for a couple of weeks during April.
- Car markets are staging a comeback also stimulating oil.
- P/E ratio is discounted

- VIX down 7%

For comprehensive valuation data, check the data subscriptions provided by Sibilis Research.

DAX index: P/E Ratio & Dividend Yield

	DAX Index	P/E Ratio (TTM)	Forward P/E Ratio	Dividend Yield (TTM)
3/31/2020	9,935.84	17.15	10.68	3.40%
12/31/2019	13,249.01	24.58	13.91	2.54%
9/30/2019	12,428.08	16.08	13.20	2.75%
6/30/2019	12,398.80	16.05	12.90	2.63%
3/31/2019	11,526.04	14.50	12.25	2.76%
12/31/2018	10,558.96	11.56	10.81	2.71%
9/30/2018	12,246.73	14.12	12.09	2.55%
6/30/2018	12,306.00	13.05	11.92	2.56%
3/31/2018	12,096.73	12.90	12.24	2.84%

NIKKEI 225 :

- The Federal Reserve has expressed a willingness to do whatever it takes to keep the US economy afloat, USD/JPY may continue to fall in the coming days despite NI225 having a great week.
- Japan seems poised to lift some measures in some areas that are showing no new cases. PPI data from Japan will likely confirm the deflationary pressures that have persisted this year. Japan compiled a record \$1.1 trillion economic stimulus package in April that focused on cash payouts to households and loans to small businesses hurt by the pandemic.
- VIX unchanged but on a fall trend.

SHCOMP :

- The week ahead will have a tremendous amount of focus with the Chinese recovery, as critical April economic data will show how fast their economy is bouncing back. China's pickup in economic activity will be the template many will use for outlining what will happen in Europe and the US. China's central bank signals more policy measures to support the virus-ravaged economy.
- China-US deal might help. Tesla might be restarting the plant this week. Disneyland like parks opening.

HYG/TLT :

- Treasury outlook not positive as Fed not easing on stimulus.
- High yield bonds had another good week as companies look to borrow. Top issuers include Sprint, T mobile, Netflix, CCO unlikely to cause major concerns.

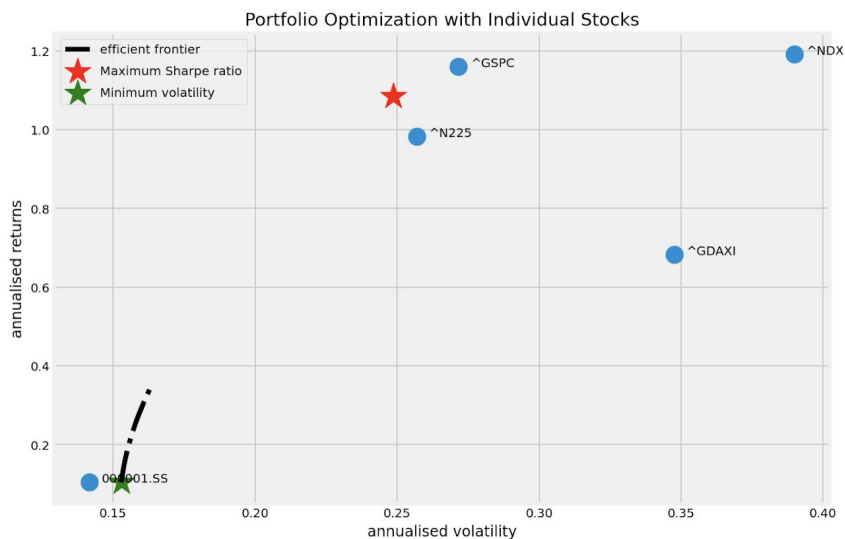
Crude/Gold Index :

- Gold will continue to remain flat to bearish in the week, no additional investments for now.
- Crude rally might end for a relatively stable price range.

Markowitz Portfolio

Individual Stock Returns and Volatility

^GSPC : annuaised return 1.16 , annualised volatility: 0.27
^NDX : annuaised return 1.19 , annualised volatility: 0.39
^N225 : annuaised return 0.98 , annualised volatility: 0.26
000001.SS : annuaised return 0.1 , annualised volatility: 0.14
^GDAXI : annuaised return 0.68 , annualised volatility: 0.35



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Maximum Sharpe Ratio Portfolio Allocation

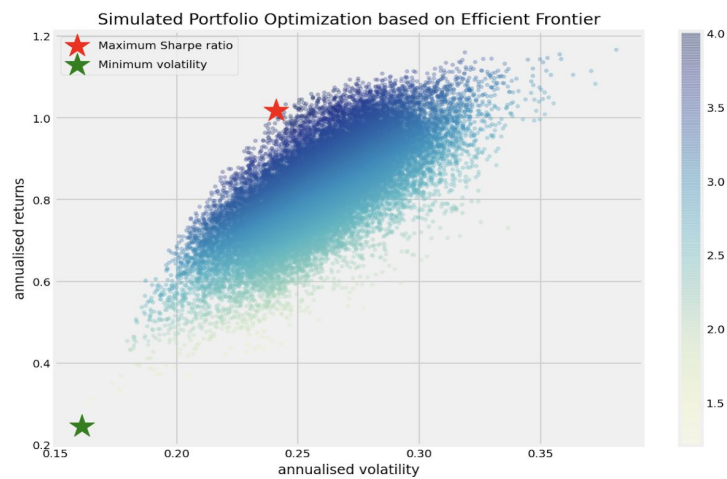
Annualised Return: 1.02
Annualised Volatility: 0.24

	[^] GSPC	[^] NDX	[^] N225	000001.SS	[^] GDAXI
allocation	45.7	3.03	45.26	5.97	0.04

Minimum Volatility Portfolio Allocation

Annualised Return: 0.25
Annualised Volatility: 0.16

	[^] GSPC	[^] NDX	[^] N225	000001.SS	[^] GDAXI
allocation	6.72	1.71	4.49	85.1	1.98



Output of Markovitz efficient frontier using last week's data. A riskier strategy for this week makes sense after a cautious start.