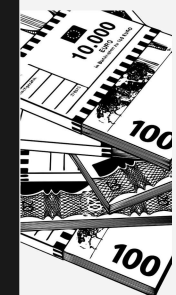
FinSearch

A58- Portfolio management during crisis



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PORTFOLIO MANAGEMENT

Portfolio management is the art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution.

KEY ELEMENTS IN PORTFOLIO MANAGEMENT

DIVERSIFICATION
is the process of including different kinds of investments in your portfolio

ASSET ALLOCATION
The tactical asset allocation strategy traditionally involves splitting capital between 4 asset classes – stocks, bonds, commodities and cash. A person's risk appetite and life goals

REBALANCING
Over time, one's investments may increase or decrease in value. Portfolio rebalancing is the practice of buying and selling your holdings as needed, so your target allocation is restored.

02

COVID 19 VS 2008 ECONOMIC CRASH

COMPARISION

2008 Crash

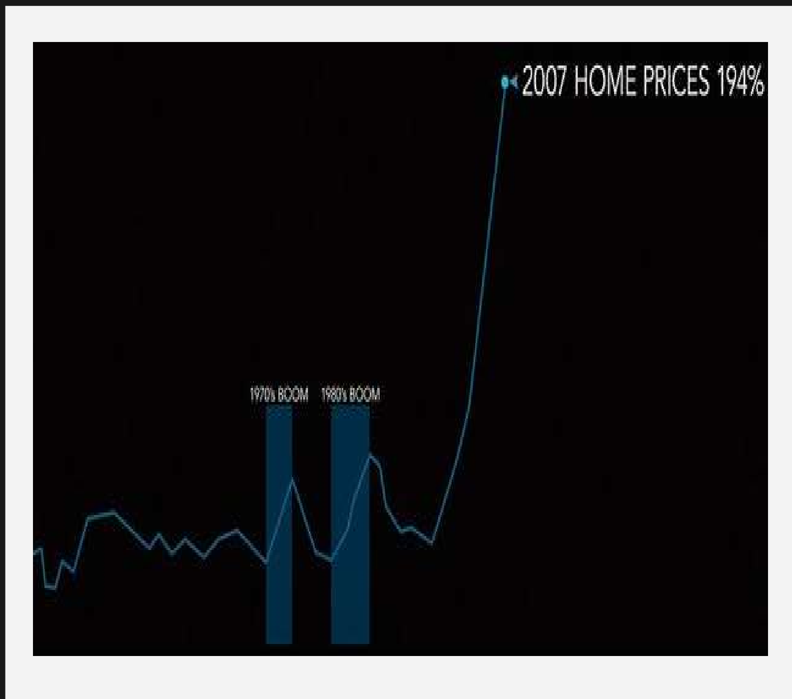
The subprime NINJA (Neither Income nor Jobs & Assets) loans granted in the US with the aim of promoting housing market led to the financial crash of the US economy.

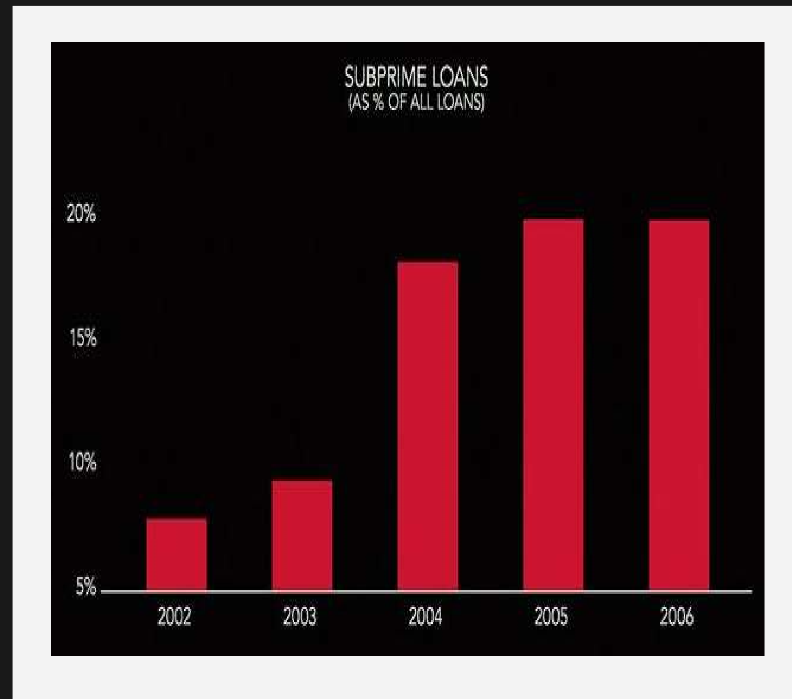
As the US government tried hard to boom the housing market, MBS, Adjustable-rate mortgages were introduced in 1980s which led to increase in demand which in turn inflated the housing prices.

COVID 19 CRASH

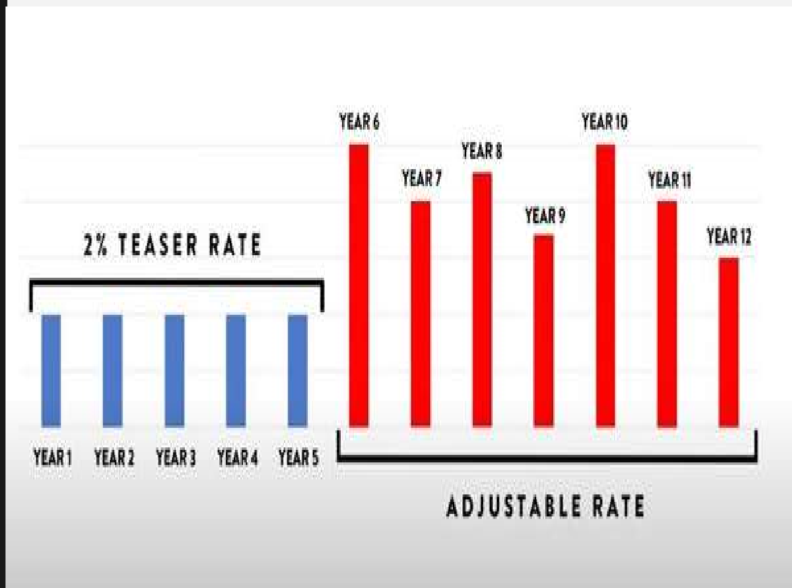
The spread of the Corona virus in china december 2019 (which was later declared pandemic) led to crash of China economy as people started losing faith in the market and tried shorting it.

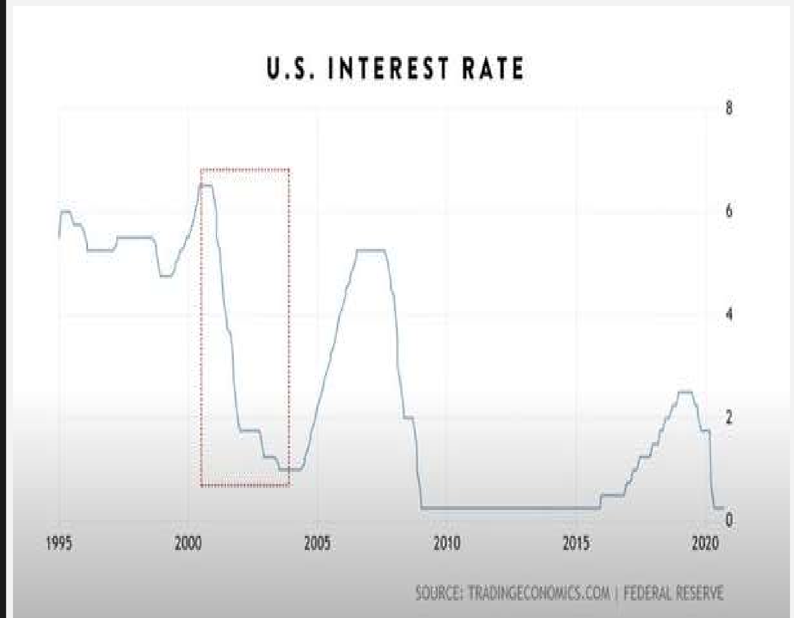
Because of the lockdown due to the virus, the production was affected and hence the supply was hampered, the demand wasn't affected much in this case.


2007 HOME PRICES 194%
1970's BOOM
1980's BOOM


SUBPRIME LOANS
(AS % OF ALL LOANS)
20%
15%
10%
5%
2002
2003
2004
2005
2006

Adjustable Rate mortgages





COMPARISIONS

2008 Crash

The government policies were framed in order to revive the financial system of the US as Britain tried hard to acquire Lehman Brothers with Barclays.

The US govt enacted National Economic Stabilization Act of 2008 which created $700 billion to buy distressed assets including MBS

COVID 19 CRASH

The government policies were framed to help the mankind in this fatal pandemic.

Governments all over the world implemented different policies to back their citizens with medical facilities and allowances to help them survive the pandemic.

COMPARISIONS

2008 Crash

The economical crash in 2008 was followed by a great recession in 2009 as the financial system was not regulated properly.

COVID 19 CRASH

Although initially when the pandemic hit the world, there was a crash but market was able to survive and bounce back almost to its original level as today, a decade later our financial system regulations are strong enough to stand strong against a crisis.

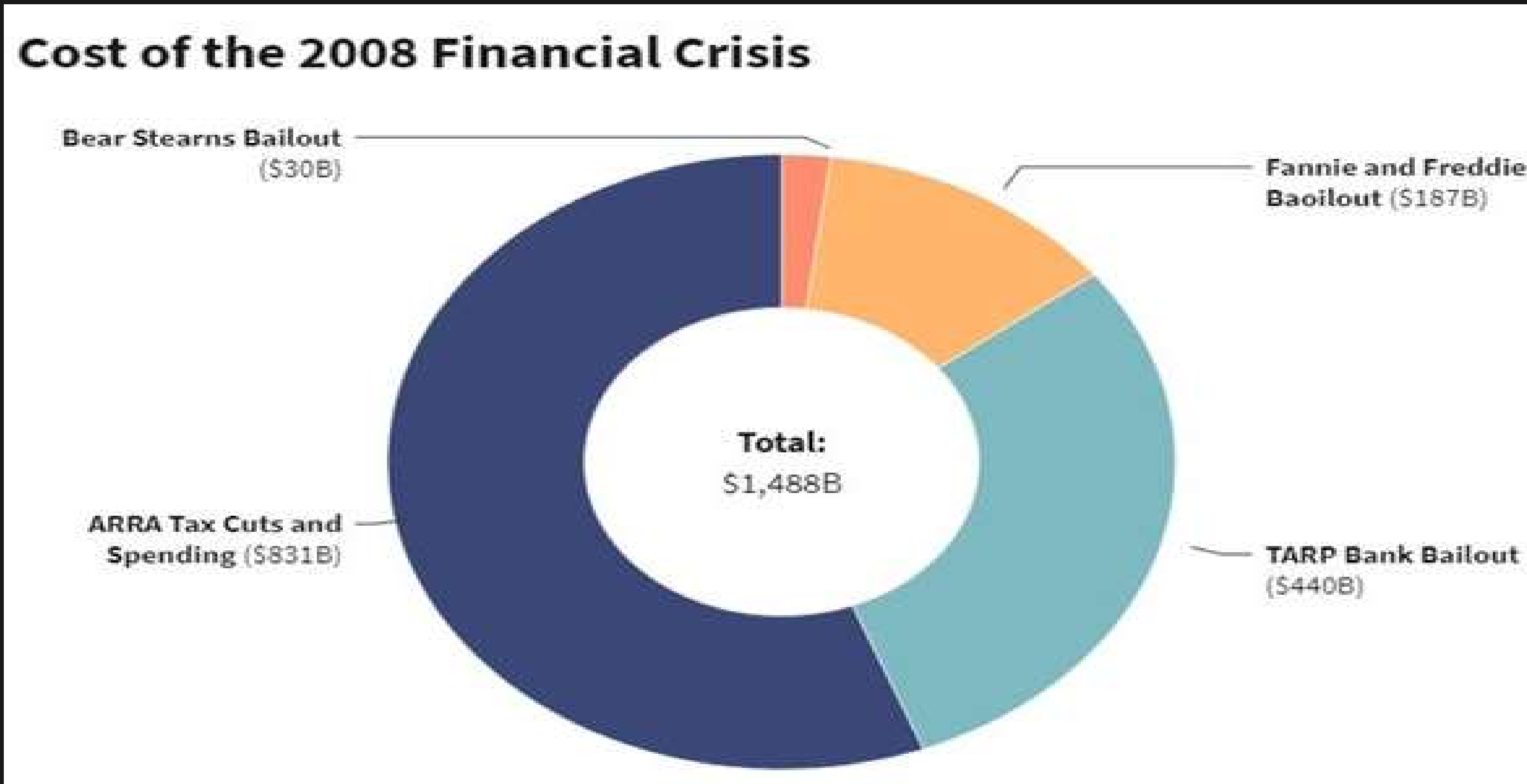
COMPARISIONS

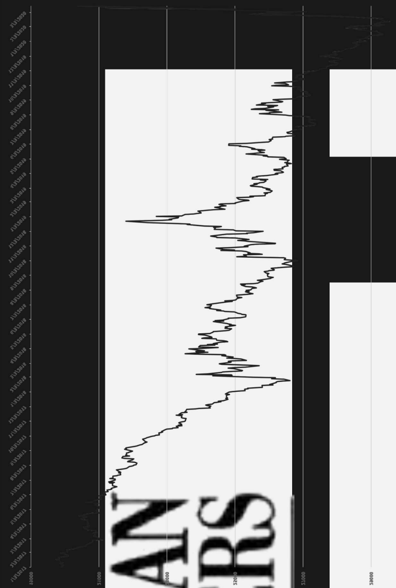
2008 Crash

Carelessness of the US government authorities, FED and top level executives played a huge role in this crash.

COVID 19 CRASH

Emotion based trading contributed significantly as it was a medical crisis and the feeling of uncertainty was difficult to combat.

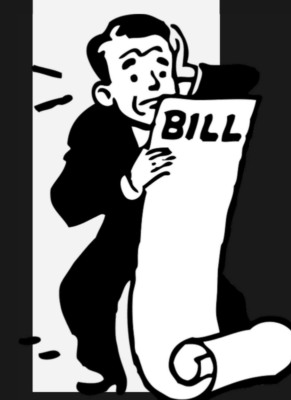

Cost of the 2008 Financial Crisis
Bear Stearns Bailout ($30B)
Fannie and Freddie Baoilout ($187B)
Total: $1,488B
ARRA Tax Cuts and Spending ($831B)
TARP Bank Bailout ($440B)



LEHMAN BROTHERS

CASE STUDY

AIG



American International Group

- Almost a decade after it was handed a government bailout worth about $150 billion, the U.S. Financial Stability Oversight Council voted to remove AIG from its list of institutions that are systemic risks.

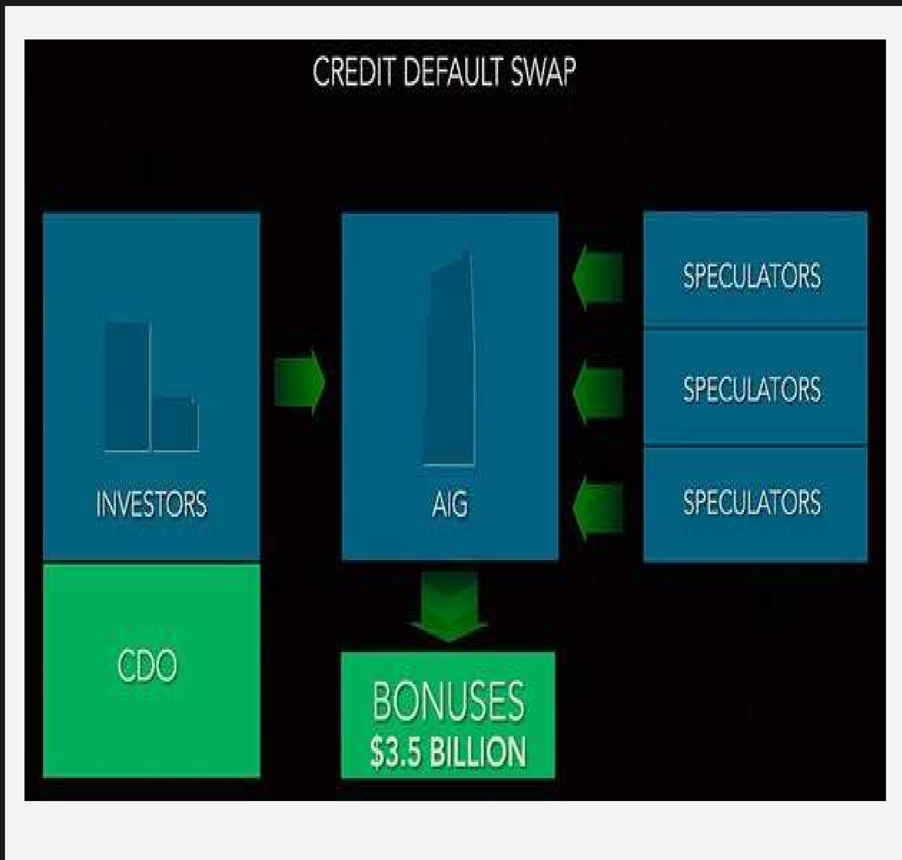
Chain of events showing how AIG failed and was saved :

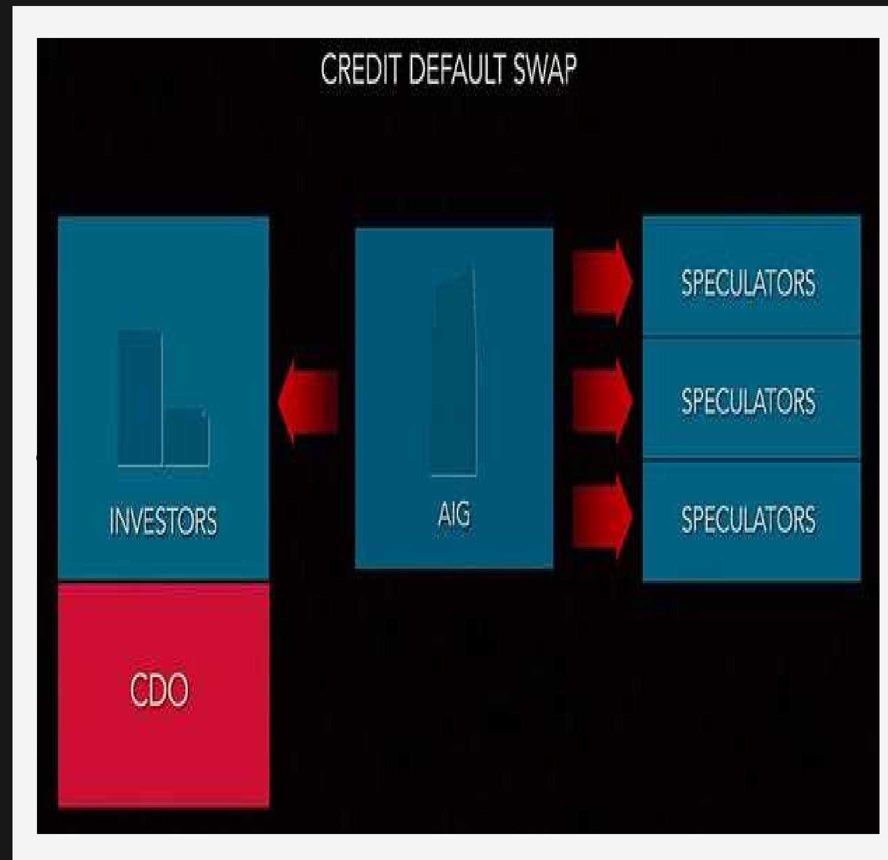
1. The AIGFP (AIG Financial Products) division sold insurance against investment losses. It would insure CDOs against default through a financial product known as a credit default swap. The chances of having to pay out on this insurance seemed highly unlikely.The CDO insurance plan was a big success, the division's revenues rose from $737 million to more than $3 billion.
2. And then foreclosures on home loans rose to high levels. AIG had to pay out on what it had promised to cover. The AIGFP division ended up incurring about $25 billion in losses. Accounting issues within the division worsened the losses.
3. AIG was in danger of insolvency. To prevent that, the federal government stepped in. But why?
4. Simply put, AIG was considered too big to fail. A huge number of mutual funds, pension funds, and hedge funds invested in AIG or were insured by it, or both.

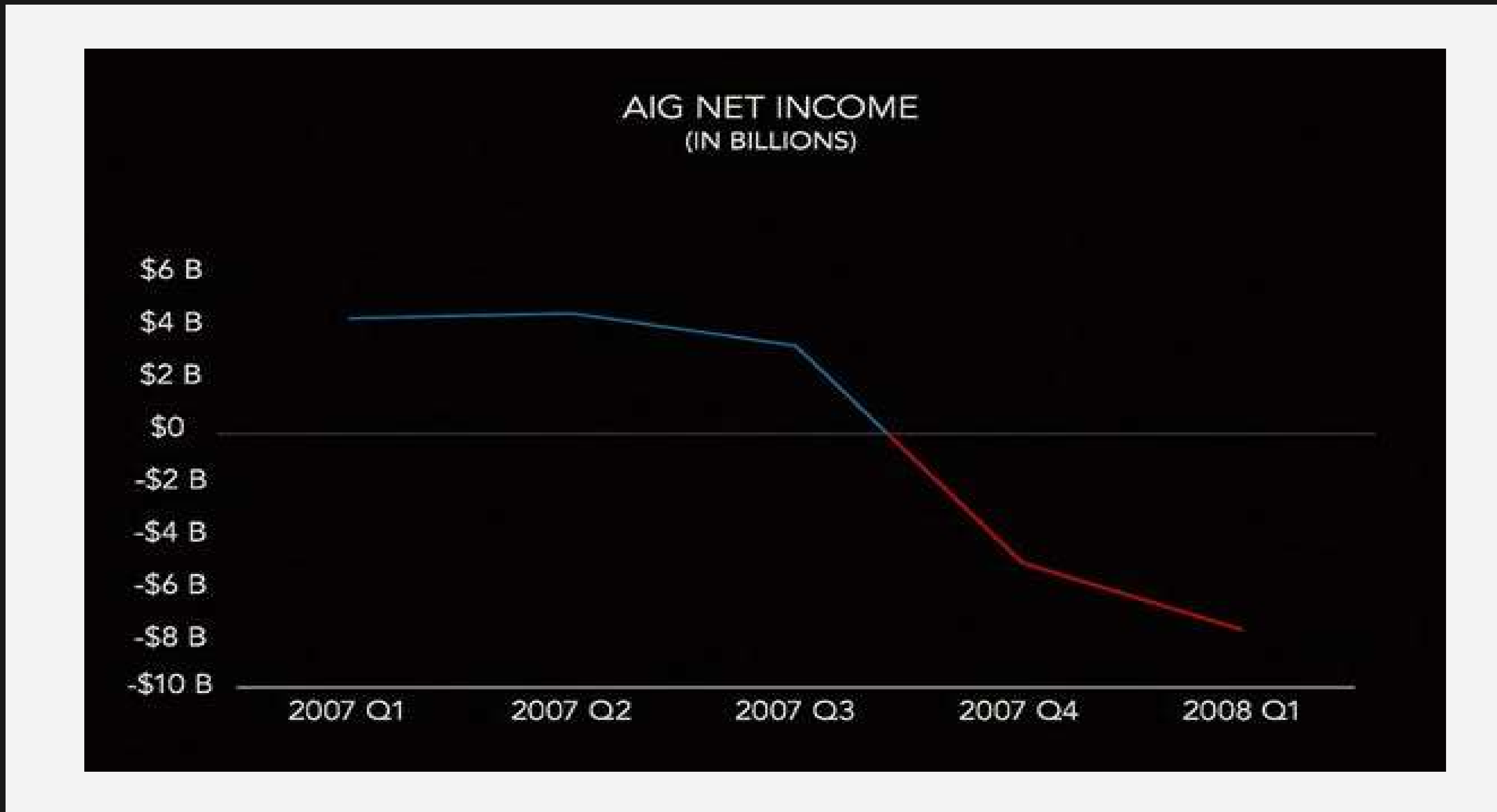
5. In particular, investment banks that held CDOs insured by AIG were at risk of losing billions. Money market funds, generally seen as safe investments for the individual investor, were also at risk since many had invested in AIG bonds. If AIG went down, it would send shockwaves through the already shaky money markets as millions lost money in investments that were supposed to be safe.
6. While AIG hung on by a thread, negotiations took place among company executives and federal officials. Once it was determined that the company was too vital to the global economy to be allowed to collapse, a deal was struck to save the company.
7. The Federal Reserve issued a loan to AIG in exchange for 79.9% of the company's equity. The total amount was originally listed at $85 billion and was to be repaid with interest. Later, the terms of the deal were reworked and the debt grew. The Federal Reserve and the Treasury Department poured even more money into AIG, bringing the total up to an estimated $150 billion.
8. AIG is still alive and kicking, and is no longer considered a threat to the financial stability of the United States.

BEFORE AFTER

THE BURST OF HOUSING BUBBLE






AIG NET INCOME
(IN BILLIONS)
$6 B
$4 B
$2 B
$0
-$2 B
-$4 B
-$6 B
-$8 B
-$10 B
2007 Q1
2007 Q2
2007 Q3
2007 Q4
2008 Q1

Lehman Brothers

Lehman Brothers filed for bankruptcy on September 15, 2008

Here's the chain of events showing how Lehman Brothers failed :

1. Despite its ability to survive past disasters, the collapse of the U.S. housing market ultimately brought Lehman to its knees, as its headlong rush into the subprime mortgage market proved to be a disastrous step.
2. At first, Lehman's acquisitions seemed prescient. Lehman's real estate business enabled revenues in the capital markets unit to surge 56% from 2004 to 2006. The firm securitized $146 billion of mortgages in 2006.
3. In February 2007, Lehman's stock price reached a record $86.18 per share, giving it a market capitalization of nearly $60 billion. But by the first quarter of 2007, cracks in the U.S. housing market were already becoming apparent. Defaults on subprime mortgages began to rise to a seven-year high. Lehman said the risks posed by rising home delinquencies were well contained and would have little impact on the firm's earnings

4. Lehman's stock fell sharply as the credit crisis erupted in August 2007 with the failure of two Bear Stearns hedge funds. During that month, the company eliminated 1,200 mortgage-related jobs and shut down its BNC unit.
5. In 2007, Lehman underwrote more mortgage-backed securities than any other firm, accumulating an $85 billion portfolio, or four times its shareholders' equity. In the fourth quarter of 2007, Lehman's stock rebounded, as global equity markets reached new highs and prices for fixed-income assets staged a temporary rebound. However, the firm did not take the opportunity to trim its massive mortgage portfolio, which in retrospect, would turn out to be its last chance.
6. In 2007, Lehman's high degree of leverage was 31, while its large mortgage securities portfolio made it highly susceptible to the deteriorating market conditions thus their shares started plummeting and the stocks plunged 77% in the first week of September 2008.
7. Over the summer, Lehman's management made unsuccessful overtures to a number of potential partners. After the South Korean bank talks were put on hold, hedge fund clients along with short term creditors started abandoning the company.
8. On Monday, September 15, Lehman declared bankruptcy, resulting in the stock plunging 93% from its previous close on September 12.

LEHMAN BROTHERS

03

Cryptocurrency & SPACs

All about SPAC

SPACs:History & Introduction

Generally a team of experienced wall street professionals or private equity and hedge fund managers create a SPAC

SPAC stands for **Special Purpose Acquisition Company.** The sole purpose of SPAC is to raise capital through an Initial Public Offering **(IPO)** for the purpose of an existing company.

How it works ?

In creating a SPAC, the founders have a target company in mind but it is generally not disclosed

SPACs are generally formed by investors, or sponsors, with expertise in a particular industry or business sector, with the intention of pursuing deals in that area. After an acquisition it is listed on one of the major stock exchanges

Advantages

A SPAC has generally two years to complete a deal or face liquidation. It is listed on one of the stock exchanges after acquisition

SPAC offers business owners a faster process than traditional IPO by relaxing some technicalities. SPACs provide higher valuations , less dilution, more certainty and transparency and fewer regulatory demands

Cryptocurrency: An introduction

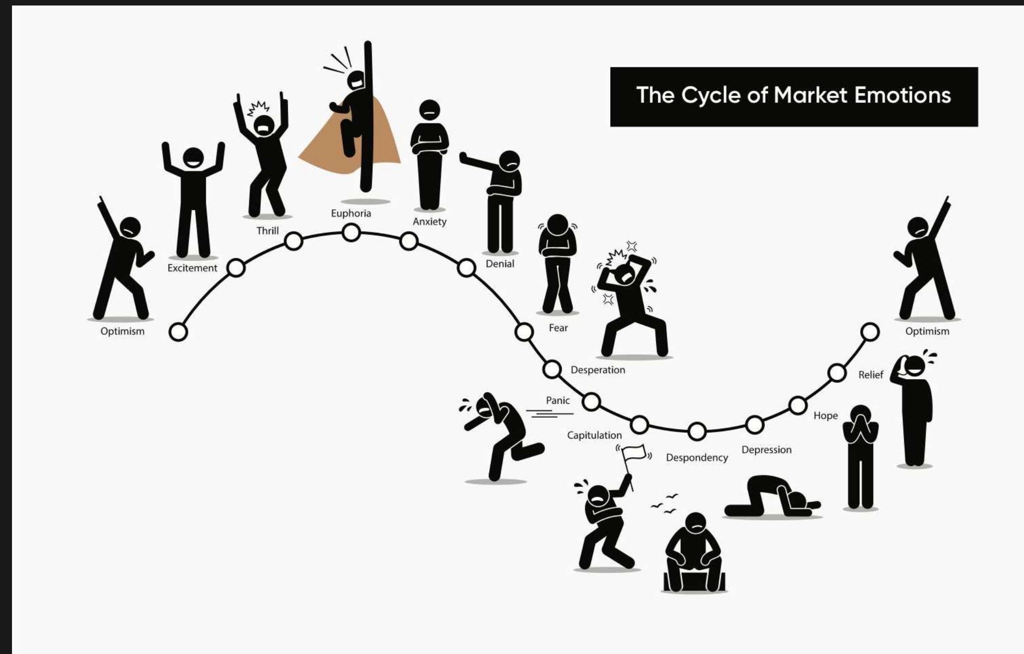
1. Cryptocurrency often referred to as crypto is a digital or virtual currency that is secured by cryptography. Many cryptocurrencies are decentralised networks based on blockchain technology.

2.These are digital assets that are distributed across a large network. The decentralized structure allows them to exist outside the control of government and other central authorities.

3.The first blockchain based cryptocurrency was Bitcoin which still remains the most popular and most valuable. Some of the other known cryptocurrency are Ethereum, Litecoin, Peercoin.

4.Bitcoins use **SHA-256** hashing algorithm for its functioning. The transaction are anonymous with no names involved. It uses private and public key for transaction

04



Emotion based Trading

Behavioral Finance

Emotion based trading can be described as the situation when a trader or an investor lets personal feelings and emotions impact their decision making. It usually involves breaking away from strategies

During periods of market volatility and rising interest rates, investors often move funds from riskier stocks and to lower-risk interest rate securities.

The key to trading success is emotional discipline - Victor Sperandeo

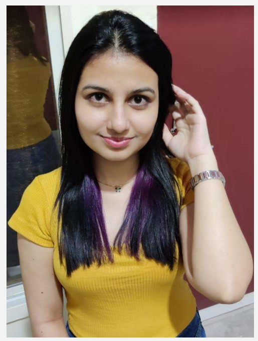
Dollar cost averaging and diversification are two of the approaches to take guesswork out of investment decision and reduce the risk of poor timing due to emotional investing

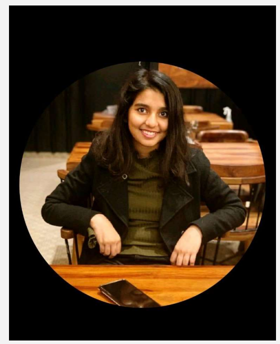
Understanding the risk tolerance and the risk of the investment is a very important aspect of decision making

During periods of market volatility and rising interest rates, investors often move funds from riskier stocks and tolower-risk interest rate securities.

OUR TEAM


Ishita Gupta


Aastha Kapoor


Aditi Gupta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