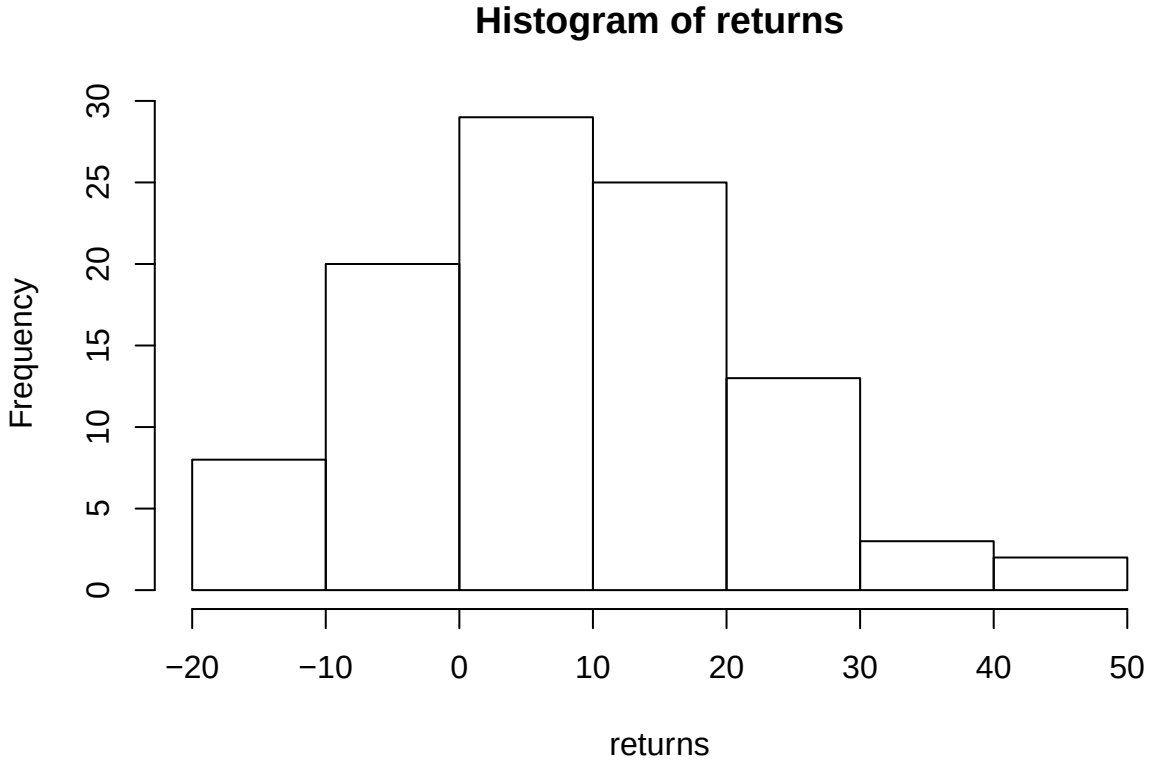
montecarlo

Planning & Regional Development

5/18/2020

```
## Loading required package: snow
```

So, we're buying stock in Black Flag (roach motels). Average returns are 7% (SD is 9%).



We want to ignore it for five years, then check in to see where it's landed.

```
## [1] -11.23316  20.70092  12.15241  33.32897  27.15410
```

That's five years of returns. But try again . . .

```
## [1] -16.492794   1.816873  28.290844  17.306721
```

. . . and there are five different returns.

A quick Monte Carlo tells us what to expect. You sample from the vector of potential returns, then take the mean for each year.

```
##           [,1]       [,2]       [,3]        [,4]      [,5]
## [1,] -3.944686 -15.284592   5.637753   3.8189737 26.853325
## [2,] 25.396331  13.599314  24.158375  15.8441012 -1.195276
## [3,]  6.385720   1.834974  -5.251126 -11.7088606  6.817008
## [4,] 15.289663  -4.993514  -1.379871  24.1583755 11.623856
## [5,] -1.195276   6.165402  17.408236  13.7091599 16.408540
## [6,]  0.206540   8.595957 -10.529478  -0.7471806 -6.383195
```

Grab the column means for an expectation for each year:

```
## [1] 7.991142 9.338879 8.762916 8.494974 8.897184
```