Class: CS 4803, MLT
Project: Financial Project 2
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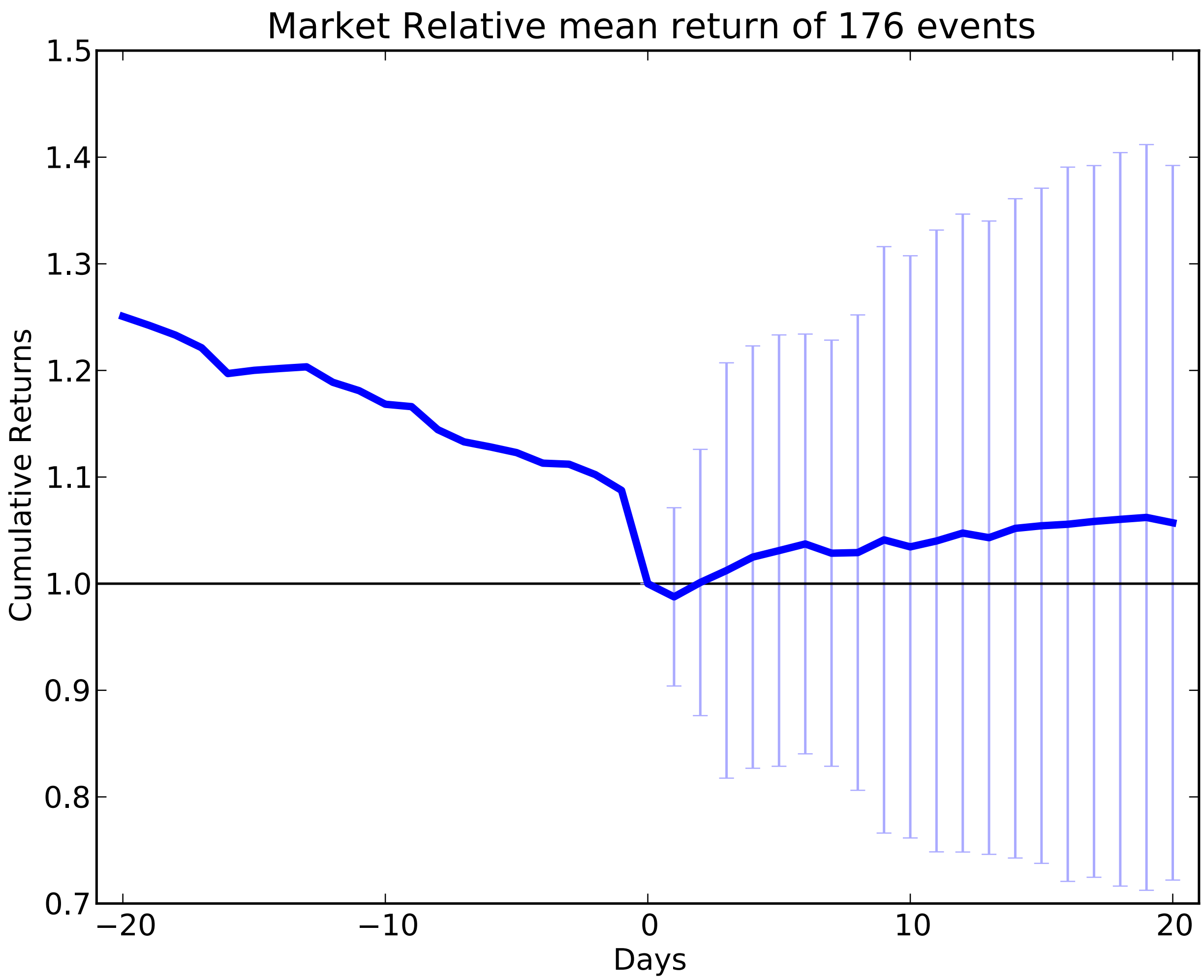
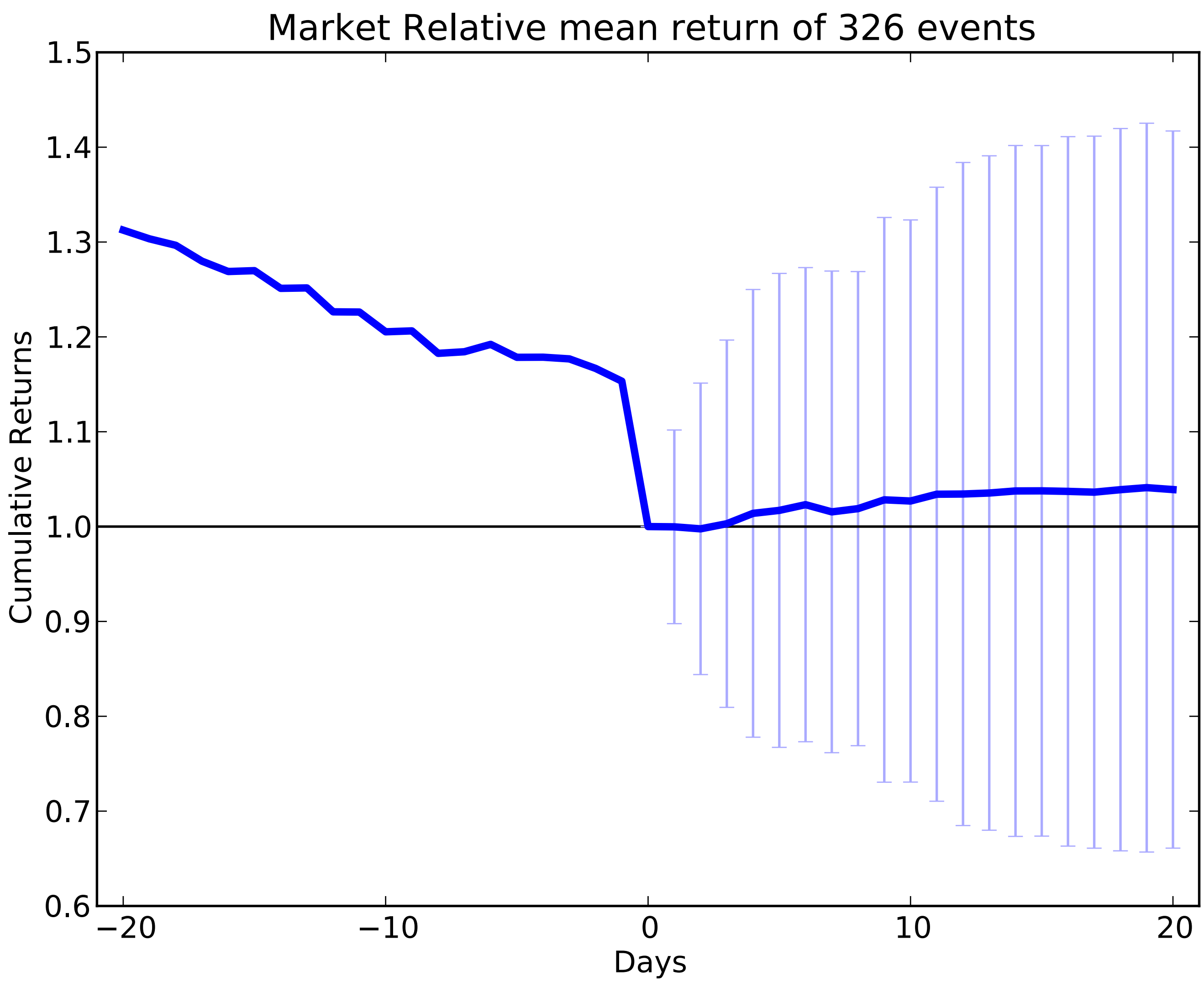


$5 event S&P500 2012

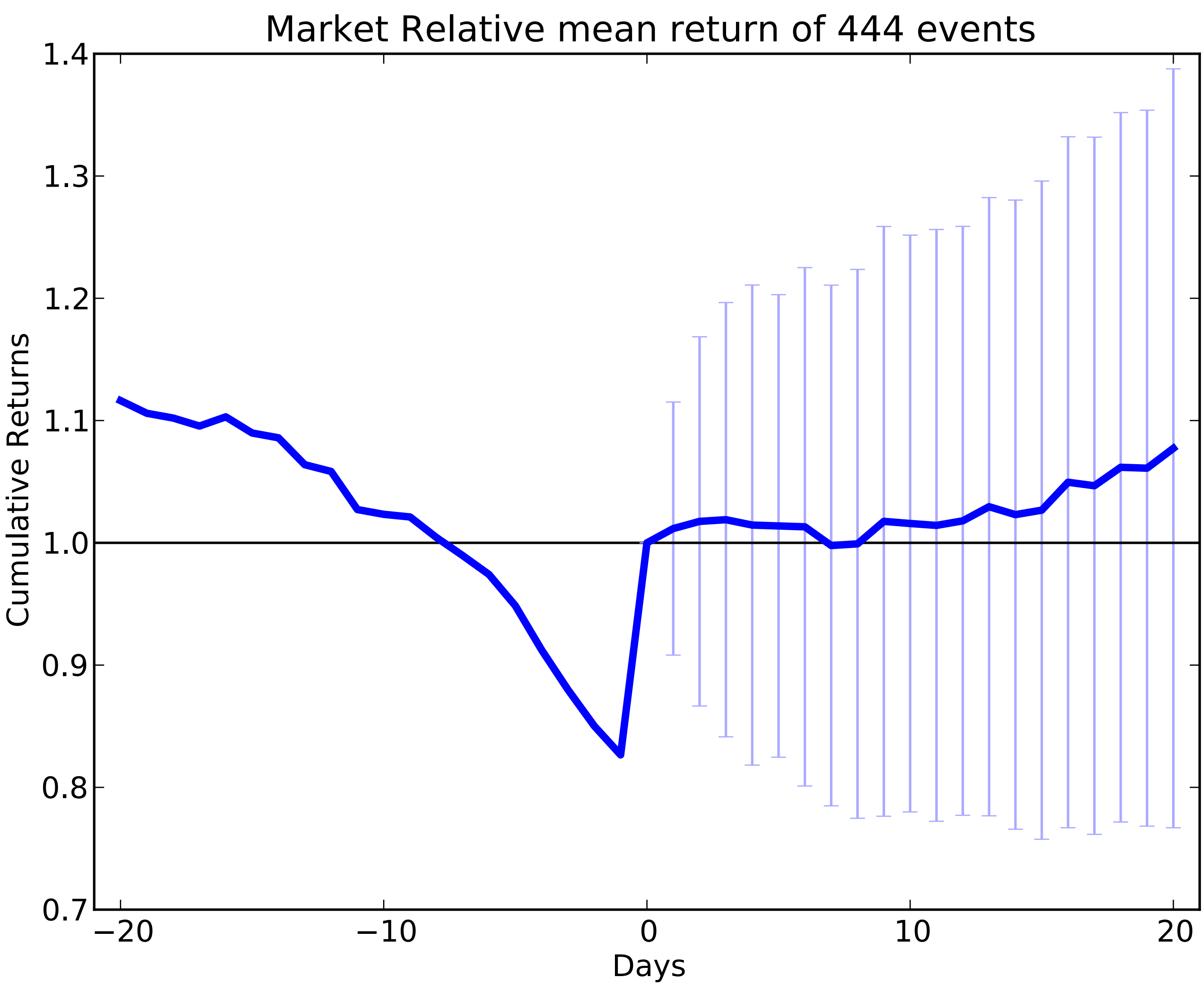


$5 event S&P500 2008

Similarities:
1. They both decrease until the event.
2. They cumulative return in both increases after the event.

Differences:
1. The rate of increase is higher in 2012, compared to 2008. This might be because of the recession in 2008.

My event: at least 20% increase in price.



Is it possible to make money using your event? - Yes, it is possible to make money. As soon as the event occurs, there is a sharp increase in the cumulative returns, and it increases thereafter.

If it is possible, what investing strategy would you use? Think about details of entry (buy) and exit (sell), how many days would you hold? - When the stock drops, I would watch it for the next 2 days, if it becomes steady, or rises, I would hold on to it, otherwise, because of extreme volatility in the past, I would sell it, if it drops more than 2%. In this case, I would hold on to the stock for 20 days and get about a 9%-10% return.

Is this a risky strategy? - Yes. Looking at the history of the stock, it can drop immensely over a very short period of time, thus I can loose a lot of money in those 2 days itself. Also, the standard deviation is very high.

How much do you expect to make on each trade? 10%

How many times do you expect to be able to act on this opportunity each year? That would depend on the year. For the year 2008, the number is 444.

Is there some way to reduce the risk? The only way I see to reduce the risk is invest when the increase rate is higher.