Investment and Risk

Final Exam

*“The Faculty of Business Administration in Foreign Languages”*

*Group: 132*

*Name: Neacșu Dragoș-Marian*

**19-21.01.2021**

# Introduction:

The current exam document is to present and analyze an investment plan based on the evaluation of a stock portfolio consisting of 3 shares from 3 different companies listed on the Bucharest Stock Exchange *(BVB).*

# Stock and Stock Portfolio:

Whenever a company decides and has the possibility of going public, it offers access to multiple investors to have ownership over smaller or larger fragments of the company itself. A stock, also known as equity, is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. The units of stock are called "shares." Stocks are bought and sold predominantly on stock exchanges, though there can be private sales as well, and are also the foundations of many individual investors' portfolios. These transactions have to conform to government regulations which are meant to protect investors from fraudulent practices. For example, if a company has 2,000 shares of stock outstanding and one person owns 1000 shares, that person would own and have claim to 50% of the company's assets and earnings.

A portfolio is a collection of financial investments such as bonds, commodities, cash, and stocks. Even though many times a portfolio consists only in bonds and stocks, as these ones provide the highest returns, and are safer virtually speaking, it can also include a wide range of assets including real estate, art, and other investments. That’s been said, a stock portfolio specifically, is a gathering of stocks purchased by an investor with the purpose of reselling them for gaining higher returns (yields). One of the main golden rules of a portfolio, no matter what it encompasses is diversification, or as Warren Buffet would say: “don’t put all the eggs in the same basket”. The reason behind this aphorism states from the fact that as there is a higher diversification, the risks related to the investment can be reduced. If all the stocks are being purchased from the same economic entity, and that firm/organization is going to decline, then there would be an extreme downside.

# Stock Exchange and Bucharest Stock Exchange:

A stock exchange is a centralized location that brings corporations and governments so that investors can buy and sell equities. Auction-based exchanges such as the Bucharest Stock Exchange allow traders and brokers to physically and verbally communicate buy and sell orders. Electronic exchanges take place on electronic platforms, so they don't require a centralized physical location for trades. A stock exchange is where different financial instruments are traded, including equities, commodities, and bonds.

The Bucharest Stock Exchange, also called BVB, is the stock exchange of Romania having the headquarters in Bucharest. In a first phase, in 1839, the commodities-trade exchanges were a trend in Bucharest, which contributed to the formation of the official creation of the financial entity on 1st of December 1882. One week later, the exchange rates began being published in the Official Gazette. Throughout time, the BVB capitalization suffered fluctuations, but it was until 2019 when a pinnacle was registered with an increase of 23.4% (37.8 billion EUR). At the end of the year, 83 companies were listed.

# Portfolio Companies:

## OMV PETROM Opportunities of investment:

The first company which stock is to be introduced in the portfolio is “OMV PETROM S.A”.

Financially speaking, the stock prices listen on BVB from the last 5 years depict the fact that from 2016 to 2019, there occurred an ascendant trend in the stock price. From 2019, to 2020, there was a slight drop, and from the beginning of 2020 and until now, there is a small volatility. *(1)*

Even though there is an emerging threat of the development of electric cars that would reduce the Gas station’s profits, OMV is a leading company, and it will take many years from now on in order for the electric cars to occupy a major segment from the total auto-vehicle category. Moreover, OMV represents a center where people stop whenever they are on the road, in order to eat, drink, or purchase products for the usage of their cars (despite gas). That’s being said, OMV is a protected company from many points of view, making it safe to invest in. *(2)*

Furthermore, taking into account that the stock prices are slightly low because of the current Pandemics in comparison to the last years, the stocks can be purchased at a small discount. After this scenario passes by, the stock prices might increase further again as it happened between 2016 and 2019. *(3)*

Overall, the company presents high opportunities of investment insofar as the stock price volatility is low, there are many ascendant trends, and the external possible threats cannot affect the company’s profit or financial evolution so easily. Also, the possibility of purchasing at a discount and reselling after a few years at a higher premium it’s a benefic strategy.

Overall, the company presents high opportunities of investment insofar as the stock price volatility is low, there are many ascendant trends, and the external possible threats cannot affect the company’s profit or financial evolution so easily. Also, the possibility of purchasing at a discount and reselling after a few years at a higher premium it’s a benefic strategy.

## TURISM FELIX Opportunities of investment:

The second company for the portfolio is TURISM FELIX S.A. “Băile Felix”which is the largest and most popular spa resort from Romania.

The BVB shows the fact that in the last 5 years the price trend had been an up one, increasing from year to year. *(1)*

On rational grounds, the company is to keep its profits at a high level as it is a big player in the industry. It’s a fundamental need for the people that suffer from health issues, and also a big want for the people that want to relax during their spare time. *(2)*

In the current Pandemics, as the people have been obliged to stay in lockdown, the investors got alarmed and sold the stocks, creating a small decrease in the stock price. Now is a great opportunity to invest in the company. *(3)*

## AEROSTAR Opportunities of investment:

The third company is being called AEROSTAR S.A. The company operates in the aeronautics industry, producing specific aircrafts, engines, and providing maintenance and it serves worldwide.

From 2016 the company followed an increasing trend in the stock price evolution until 2020. *(1)*

Due to its supposing many contracts and collaborations with partners throughout the world, the company has high chances of staying on the ground. *(2)*

From the first month of 2020 until the third month of the year, there was a rapid drop of approximately two price units. This happened most probably due to the pandemics as the production stopped, but as it’s being shown the prices are slightly volatile but still low in this period, offering the investors an opportunity at purchasing at a discount. *(3)*

# Computations:

## Average Return and Risk of the Stocks:

The return in the given context represents the amount of money gained from investing in a stock and selling it at a different price over a certain period of time (trading).

**Database:**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Date (Consecutive Days)*** | ***Company 1 (OMV PETROM S.A)*** | ***Company 2(TURISM FELIX S.A.)*** | ***Company 3 (AEROSTAR S.A. )*** |
| Date 1 *(25.11.2020)* | 0,3580 | 0,3320 | 4,0600 |
| Date 2 | 0,3580 | 0,3320 | 4,1400 |
| Date 3 | 0,3565 | 0,3180 | 4,1800 |
| Date 4 | 0,3570 | 0,3180 | 4,2000 |
| Date 5 | 0,3595 | 0,3160 | 4,1800 |
| Date 6 | 0,3640 | 0,3300 | 4,2200 |
| Date 7 | 0,3600 | 0,3140 | 4,1400 |
| Date 8 | 0,3600 | 0,3320 | 4,3000 |
| Date 9 | 0,3595 | 0,3140 | 4,2400 |
| Date 10 | 0,3595 | 0,3160 | 4,2800 |
| Date 11 | 0,3585 | 0,3160 | 4,3000 |
| Date 12 | 0,3630 | 0,3160 | 4,2800 |
| Date 13 | 0,3630 | 0,3140 | 4,2800 |
| Date 14 | 0,3625 | 0,3180 | 4,2600 |
| Date 15 | 0,3645 | 0,3200 | 4,2000 |

Portfolio Return:

W1: 39%

W2: 1%

W3: 60%

Mean Return 1: 0.3602

Mean Return 2: 0.3204

Mean Return 3: 4.2173

R=

E(RP)= w1\*E1+w2\*E2+w3\*E3

= 0.39\*0.3602+ 0.01\*0.3204+ 0.60\*4.2173

=0,14+0.003+2,53= 2,67