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Portfolio Management

Contents

[Investment policy statement 2](#_Toc124254433)

[Asset allocation 4](#_Toc124254434)

[Portfolio performance analysis 8](#_Toc124254435)

[Reflection 9](#_Toc124254436)

[Bibliography 10](#_Toc124254437)

# Investment policy statement

**Disclaimer**

The purpose of this paper is to realize and understand how the investing market works by investing in the simulation of the game. The knowledge gained will be used in real-life situations by applying the knowledge which was gained during the game. The knowledge will be used to diversify income and gains from multiple available sources in the market.

The goal of this paper is to understand and apply gained knowledge, and possibly gained income will be used to cover education expenses and accumulate wealth.

The investor is willing to take certain risks during the period, however, the risks must be weighted, that being said, the investor must understand possible losses as well and take full responsibility for the outcome. There will be fluctuations and uncertainty during this period.

**Summary**

Karolis Liubavicius, Individual Investor, age 30

Portfolio: Individual, Taxable

Location: Arnhem, the Netherlands

[Current Assets](https://www.investopedia.com/terms/c/currentassets.asp): $10,000,000

Return Goal: 5%

Three-month loss limit: 25%

**Objectives:**

* Long-term growth and wealth accumulation
* Risk profile: High risk
* Time period: 2 months, after the period is over individual continuity.
* Long-term rate of return expectation: 12%

**Portfolio Selection Guidelines:**

Even though the diversification of assets is advised, the goal is to take well-weighted risks to increase the return in the short and long-term investment strategy. The goal is to diversify assets in the way, that long-term assets provide possibilities to purchase higher-risk assets. In that way, the losses are lower with a higher possibility of returns. Most of the investments will be made in higher and lower-risk stocks. To keep the balance risk-wise, blue-chip stocks will be considered safe.

**Focus categories:**

Equity

* Small-cap stocks
* Blue-chip stocks
* Growth stocks
* International markets
* Shorts for short-term gains

Fixed

* U.S. Bonds

# Asset allocation

Firstly, the explanation of what are the stocks the investments were made. All investments can be set in different stock categories and the focus is on these:

**Growth stock**

**What is Growth Stock?**

It is any share in the company that might grow way faster than the average share in the market. In other words, this type of stock is meant to make short-term gains by willing that the chosen company’s share will grow faster so in that case the investor will sell the assets for a higher price than the investor paid for. (Hayes, 2022)

A very important point must be made, this type of stock doesn’t pay dividends, and this responsibility comes with a high risk of a possible decline in the price. A very good example in this portfolio is Airbnb Inc. (XNAS: ABNB) stocks, when the company entered the public trade market, the price of one share was high, it started at $183.63/share as of 1/12/2020. However, we face Covid-19 during that period, and the sales of the company dropped to lows, more than twice as of today. On the other hand, the causes of that drastic drop are clear, sales dropped because of a pandemic. This indicates that the moment the market recovers from the pandemic crisis, the traveling industry gets back on track and the sales of the company will dramatically increase since there are not so many competitors for this company. Today, the price per share is $88.52, which means that it is low compared to what it can hit.

A second good example would be Fisker Inc. (XNYS: FSR) Current price is $7.69/share. Fisker was one of the first companies that made Hybrid vehicles, and they made it before it was cool. However, after that, the company didn’t release any EV or Hybrid vehicles since then. However, the company plans to start selling its new vehicles in 2023/2024, which makes this stock attractive, because of possible sales, and in that way, the stock price can skyrocket by one more company entering the EV market.

A third investment worth mentioning in this subcategory is ChargePoint Holdings, Inc. (XNYS: CHPT). The current price is $9.01/share. Which is relatively low, considering that batteries and charging markets are growing since EVs showed up in the market. The company sells charging and battery-related hardware and software which helps to improve and optimize the use of the technology for individuals and companies users.

**Small-cap stocks**

**What are small-cap stocks?**

A small-cap stock company whose market value fluctuates between $300 million and $2 billion. The gap for some companies is big, on the other hand, this type of stock for investors means that it is time to look for new companies that might grow fast in nearly future. This is a highly risky investment because that company might collapse at any time. Despite that, if the company’s market value goes drastically high it would give a high return as well. That being, we can state that in this category risks are high, but returns are higher. (Barone, 2022) A couple of those companies were mentioned in the previous category, like ChargePoint and Fisker.

One of the companies that are worth mentioning is Unity Software, Inc. (XNYS: U) at the current price level of $27.25/share. It does not fit the complete description of the category; however, this young and relatively new company provides the most popular platform for game creators on mobile devices. Which simplifies the creation of games and helps to build paid content online, paid via a third party. Which makes the company highly profitable because of the service that the company provides.

The perfect example in this subcategory would be ACM Research, Inc. (XNAS: ACMR), the current price level is $9.52/share. The current market value is ‎$567,846,100, which makes it perfect here. Why this company? Since semiconductors are the key drivers of all computing power and the demand is high, and the supply is lower, this means that the companies that produce semiconductors have a lot of leftovers. Which makes it the perfect environment for ACMR to operate. The company is one of few companies in the world that produces and sells, cleaning equipment for companies that produce semiconductors. This is a new and young company with a lot of growth potential together with the semiconductor market.

**Blue-chip stocks**

**What are Blue-chip stocks?**

A Blue-chip stock is a company with a high reputation within the market, usually well-developed, known financially, and operates for many years with a successful strategy regarding operations and returns, largely capitalized as well. Most often it is one of the market leaders within its industry. These stocks are one of the most popular stocks to buy for investors, because of their safety and stable returns on investment, usually, these stocks pay dividends as well. It contains low risk as well. (Chen, 2020) This portfolio contains such blue-chip stocks as The Coca-Cola Company (XNYS: KO), Alphabet Inc. (XNAS: GOOG), Caterpillar (XNYS: CAT), and others, the stocks were bought to ensure safety and long-term returns of the portfolio. The stocks worth mentioning from this portfolio are:

Caterpillar (XNYS: CAT), the current price is $248.86/share, and the market cap is ‎$129,509,100,000. The company is one of the biggest companies in the world in the construction market. It ‎produces construction and mining equipment, engines, turbines, and locomotives. The main segments of operations are the construction industry, resources industry, transportation, and energy.

The Coca-Cola Company (XNYS: KO) is another blue-chip stock worth being mentioned just because of its impact on the market, the current price is $63.40/share, and the market cap is ‎$274,174,200,000 respectively. It is a beverage company that produces the famous drink Coca-Cola and others, like Fanta, Sprite, etc. However, the main, and the most known product is Coca-Cola. It is known worldwide and there is nothing much to add about the company. The products are sold in more than 200 countries worldwide.

And the last one in this subcategory is VISA Inc. (XNYS: V), the current price is $217.75/share, and the market cap is ‎$448,932,500,000. This is the biggest company mentioned of all three describes here, and nothing to compare to small-cap or growth stocks. This is well known and established company, which operates in more than 200 countries around the world. Their main activity is payment and its technologies worldwide. The company participates as a facilitator for digital transactions between individuals, private and public organizations, etc. The company operates through the payment service segments.

**Bonds**

On the other hand, for long-term gains, a couple of investments were made in bonds to have stable gains.

**What are Bonds?**

A bond represents a loan given by the investor to the issuer. In simple words, it is a fixed asset of an investment portfolio that guarantees fixed income from the issuer. Usually, bonds are issued by governmental or private organizations to finance their activities or cover a budget deficit. We can name the owners of the bonds, creditors of the borrowers. (Fernando, 2022)

**T-bill 7.625-15022025**

Quantity: 500

The price paid: $1007.55

Face value: $1000

End Date: 2/15/25.

Coupon rate: 7.625%

Years to mature: 2

**T-bill 7.500-15112024**

Quantity: 1000

The price paid: $1000.22

Face value: $1000

End Date: 15/11/24.

Coupon rate: 7.625%

Years to mature: 1

**Shorts**

The third part is Shorts, few of them were made, even though it is a higher risk investment, by willing that the price of the stock will go down. And this strategy was used to increase cash to maintain investment activities.

**What is short on stocks?**

Short selling happens when an investor borrows a number of an asset from the asset holder and sells those right after he received it, by willing that the price of a stock will drop, so in that case the investor buys back the assets for a lower price and bring back the stock to the stockholder, in that way the difference of prices is the margin that investor gained.

**Short Apple Inc.**

During this portfolio, two shortening events happened, first one was with Apple shares, at the very on of 2022, Apple manufacturers in China faced employee strikes against strict Covid rules in the workplace. Because of that, it was possible to expect Apple’s share price to drop, and that’s what happened.

**Short Shell PLC.**

This shorting position is a bit different from the previous one. Since Shell PLC is really active in the North Sea by building wind generators. However, the problems in this case is that EU and UK government charged company over 2$bn in taxes, which leaves less room for investment and more money must be borrowed.

# Portfolio performance analysis

**Good things regarding portfolio performance**

Regarding portfolio, some decisions were made on time and weighted.

Portfolio contains relatively low risk, when we think about performance, certain decision was made to diversify investments in stocks as much as possible and by that number the risk reduces, since one loses can be covered by gains. In that way hopes can stay high for low-cap or growth stocks, which requires time to be sure that this investment is good or bad at the given time. However, it is good to know that the portfolio risk is 7.4% which is relatively low, according to Brian J. Bloch:

“*Most sources cite a low-risk portfolio as being made up of 15-40% equities. Medium risk ranges from 40-60%. High risk is generally from 70% upwards.”* (Bloch, 2022)

So, that’s all with good things about his portfolio.

**Bad things regarding portfolio performance**

At the same time as the portfolio is highly diversified in stocks, it looks like that too much focus was given to the stocks instead of bonds or futures, or options. Options provide options to buy stock, but it is not an obligation at the same time when the stock value reaches a certain point in the future. In this way, the investor keeps the possibility of not buying that stock, while futures obligate to gain the stock at a specific date in time. While options depend on the seller and buyer agreement, the futures obligate the buyer to buy and the seller to sell an asset. (Hayes, www.investopedia.com/ask/answers/difference-between-options-and-futures/, 2022)

The portfolio doesn’t contain enough bonds as well, the share of the portfolio is not divided into stocks and bonds, and most of the positions are in the stock part, which increases the risks of a portfolio by losing the amount of investment and not ensuring the safety net for the investment, however, blue-chip stocks help to balance the risk within range of investments.

Relatively low portfolio return compared to the risk of the portfolio is visible as well which decreases the credibility and trustfulness of the investment portfolio. The weights of the investments are not distributed equally or in the correct way, some of the weights must be adjusted and decisions must be taken over a longer period of time in order to make certain decisions about selling one or another stock if the risk doesn’t match the expectations of the investment.

General portfolio return could be higher as well, in order to do that some stocks that are not worth keeping should be sold at least for the same price as it was bought, those risky small-cap stocks must be watched carefully, and adjustments must be made in order to foresee possible losses. Because of these reasons most of the small-cap investments were made in small numbers with a willingness not to lose the investment that was made or at least break even.

The recommendation would be to get back to the portfolio in a few weeks and double-check the results and check the news on daily basis regarding the growth and small-cap stocks. News on those stocks must be followed on daily basis, in order not to lose the investment that was made and reinvest into another small-cap or growth company’s stock.

# Reflection

I would like to start the reflection by saying that investing just looks easy with easy income, but we must respect daily investors of how much work they put in this type of activity. In order to have positive gains at the expectations level it requires a lot of time of researching, analyzing, and understanding the concepts of work.

My personal performance was not sufficient in the way that I would like. Firstly, it takes a lot of time if you want to make a smart investment. Sadly, I didn’t have that much for this period, because of multiple reports and assignments that had to be done and delivered more or less the same week or sometimes even the same day. In general, the course and the module are really useful, people gain general knowledge about money, the market, and investing activities, and prepare their own portfolios. So, in that way, students can understand the specifics of this type of work because for daily traders this is their job which is interesting and captivating.

I know for a fact that I will get back to this more often than I did this period. However, in order to gain income from investing I think that it takes time and patience. In the next two weeks, I will analyze the mistakes that were done in this portfolio and I will adjust those changes in my personal portfolio, which I started because of this course.

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