

Stock Investment Analysis

This review examines three selected stocks Verizon (VZ), Chevron (CVX), and Amgen (AMGN)- based on key financial metrics and market risk. These stocks were selected for their dividend yields, industry diversification, and diversified risk exposure. P/E Ratio, P/B Ratio, Dividend Yield, and EPS are metrics applied to examine their value and profitability. Beta analysis determines their volatility in comparison to the market and measures their levels of risk.

1. Verizon Communications Inc. (VZ): A telecom company in U.S.

- A) P/E Ratio 10.54:** The stock shows undervaluation compared to the market and thereby results in lower costs for each dollar of earnings. Investors should select those stocks because they offer suitable conditions for long-term investments.
- B) Dividend Yield 6.16%:** This high yield indicates strong cash flow. It is good for investors seeking periodic returns for the investment.
- C) EPS \$0.50:** It indicates a decent measure of profitability. Stable earnings over a duration of time may translate a long-term growth.
- D) P/B Ratio 1.82:** It means that investors are willing to pay \$1.82 for every dollar of the company's net assets. It reflects the market's confidence in Verizon's intangible assets such as its brand name and the quality of its network.

Verizon's Beta 0.42 vs. the Market

- Verizon beta of 0.42 signals that the company's stock is significantly less volatile compared to the overall market.
- If the market like the S&P 500 rises or falls by 1%, Verizon stock will rise only 0.42% in the same way signifying less sensitivity to movement in the market

- Verizon is a defensive stock and therefore provides stability and security in the case of bear markets, most ideal for conservative investors.

2. Chevron Corporation (CVX): An energy company that deals with producing, refining, and selling oil and gas.

A) P/E Ratio 10.2: It suggests that the stock might be a bit undervalued compared to the market. It conveys the message that the investors are being offered a good price for Chevron's earnings, and it is the perfect investment for long-term investors who want to receive value.

B) Dividend Yield 4.4%: Chevron's dividend yield shows its ability to generate good cash flow. It is a good investment choice for income-oriented investors looking for stable returns

C) EPS \$2.06: This represents Chevron's earnings per share, gives the ability to maintain dividend payments and invest in business growth.

D) P/B Ratio 1.5: This is an indication that investors are paying \$1.50 for every dollar of the company's net assets and representing fair value and trust in the financial strength and assets of Chevron.

Chevron Beta 1.1 vs. The Market

- The beta 1.1 of Chevron shows that the company's stock is relatively more volatile than the market
- If the market for example the S&P 500 increases or decreases by 1%, Chevron's stock will also tend to move 1.1% in the same direction, so it moderately correlated with market movement.

3. Amgen Inc. (AMGN): A biotech company engaged in developing and selling drugs for life-threatening diseases.

- A) P/E Ratio 20.1:** Here higher price-to-earnings indicates, investors will pay \$20.10 per dollar of Amgen's earnings in anticipation of it increasing in the future.
- B) Dividend Yield 3.65%:** A good dividend yield reflects Amgen's culture of providing returns to shareowners, which makes it a good buy for income investors.
- C) EPS \$13.00:** This indicates that investors are willing to pay \$3.80 for every dollar of the company's net assets, a sign of confidence in Amgen's intangible assets, such as its research pipeline and intellectual property.

Amgen's Beta 0.9 vs. the Market

- Amgen's beta of 0.9 tells us that its stock is slightly less volatile than the market as a whole.
- If the market, for instance S&P 500 increases or decreases by 1%, Amgen's stock should increase or decrease 0.9% in the same direction, indicating medium sensitivity to market movements.
- Moderate risk with slight insulation from market swings.

Being a biotech company, Amgen's stock can be influenced by approval of drugs and medical policies, but its developed portfolio and ongoing research activities are a solid foundation for investors.

Bond Investment Strategy

In the selection of bonds, we have to consider risk, maturity, and economic condition as are most important. The following analysis is of two bonds: the 10-year U.S. Treasury Note and a Microsoft AAA-rated company bond, both chosen because of the balance between yield and security. The U.S. Treasury Note is a secure government bond, ideal for security, while the Microsoft bond pays a bit more as it is a company bond but is otherwise relatively safe due to being rated AAA.

1. U.S. 10-Year Treasury Note:

Type: Government bond

Duration: 10 years

Coupon Rate: 4.63%

Current Yield: $\approx 4.289\%$

Maturity Date: February 15, 2035

Price: 102.688% of par value

Change: +0.070%

Reason for Selecting U.S. 10-Year Treasury Note

- Safety & Stability – Backed by the full faith and credit of the U.S. government, with little to no default risk and principal repayment assured.
- Attractive Coupon Rate (4.63%)- Safe-haven asset class, reducing portfolio risk during periods of economic uncertainty.
- Possible Capital Appreciation- Bond prices will rise if interest rates fall, offering gains to investors.
- Diversification & Predictable Income- Minimizes overall portfolio risk while generating stable income.

2. AAA-Rated Corporate Bond (Microsoft Corporation):

Type: Corporate bond

Duration: 10 years

Bond: Microsoft Corporation 3.4% 15-JUNE-2027

Coupon Rate: 3.4%

Current Yield: $\approx 4.98\%$

Maturity Date: June 15, 2027

Price: 95.79% of par value

Change: +0.016%

Reason for selecting AAA-Rated Corporate Bond (Microsoft Corporation)

- High Credit Worthiness & Low Default Risk – Microsoft carries a AAA credit rating, the highest possible, indicating very low default risk, and this bond is a very safe corporate investment.
- Higher Yield Than U.S. Treasuries- The bond offers an existing yield of 4.98% higher than the U.S 10-Year Treasury yield (4.289%), offering better income potential to investors.
- Discounted Trading- The bond trades at 95.79% of par, and hence buyers acquire it at below face and yet stand to gain from even further appreciation when it is trading at 100% maturity.
- Less Danger from Duration Risk & Lower Rate of Interest- Maturity on June 2027 entails lesser duration (some 2 years) and thus lesser danger on fluctuations in the level of interest rates over longer tenures
- Stable & Profitable Issuer- Microsoft is a stable and profitable issuer with good financials, consistent growth in revenues, good cash balances, and market leadership, making the interest payments and repayment at maturity stable.

Speculation and Hedging Strategies Using Options

1. Speculation Strategy

Asset: Palantir Technologies Inc. (PLTR)

Option Type: Call Option (Bullish Outlook)

Timeframe: 3 months

Justification for Choosing the Asset

- Palantir Technologies Inc. is an artificial intelligence and data analytics high-growth company with strong government enterprise deals. With its exposure to the rapidly growing AI sector, Palantir's stock has good upward momentum and high volatility.
- Growth Potential: The AI-driven industry is expanding, and Palantir's consistent government and commercial deals indicate future growth opportunities.
- Earnings Catalyst: Fresh earnings releases and sector-wide AI euphoria can drive the stock price in the near future.
- Limited Risk: A 3-month call option provides the potential to ride the good stock action while limiting the risk of a fall in the stock price below the strike price to that spent on the option.

2. Hedging Strategy

Asset: Ford Motor Company(F)

Option Type: Put Option (Protective Put)

Timeframe: 6 months

Justification for Choosing the Asset

- The car industry is cyclical in nature, and Ford faces many challenges, from increasing electric vehicle (EV) competition to supply chain issues and potential economic recessions. To hedge against a potential drop in

stock prices, a protective put option with an expiration of 6 months is recommended.

- **Market Challenges:** The auto industry is highly exposed to exposed to macroeconomic forces, and Ford's stock may be impacted by interest rate fluctuations and supply chain constraints.
- **Downside Protection:** Owning a put option ensures that the investor can sell Ford's stock at a predetermined price if the market declines, reducing overall portfolio risk.
- **Keeping Ownership:** The put option allows investors to maintain ownership of the stock and nevertheless protect against the fall in prices.
- **Possible Danger:** if Ford stock does not move and it goes up, the put option becomes worthless and is a premium-paid insurance policy.