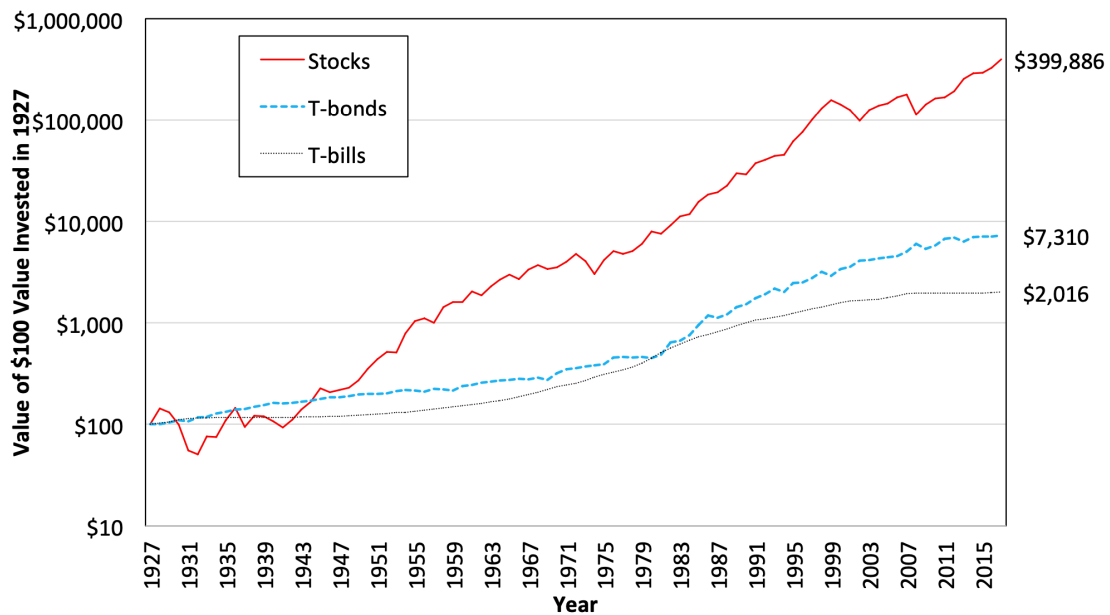


The Story of Investment Horizon



Stock is a good investment if you have long investment horizon

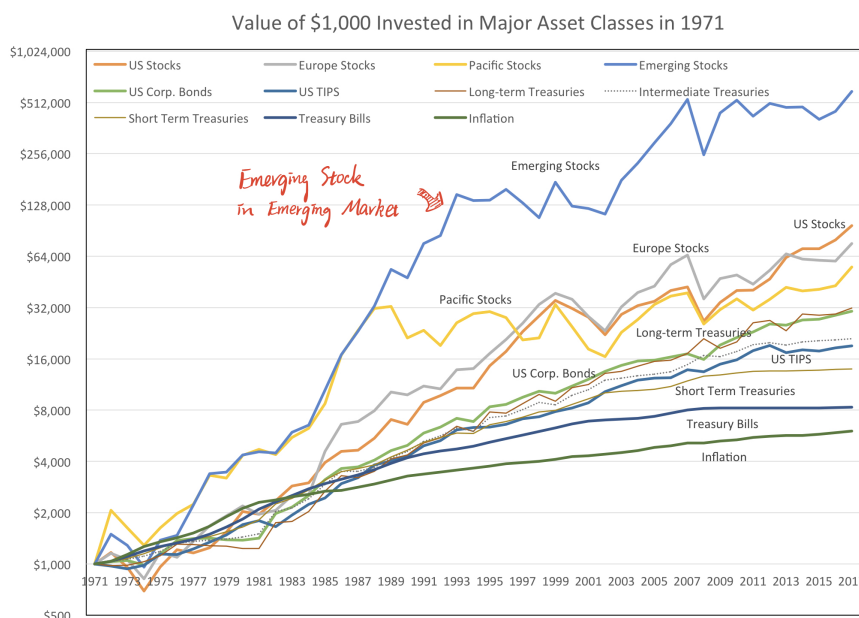
- As we can tell from the graph, stock have significantly greater return compared to bonds and bills.
- But bear in mind that this is true when you have a long investment horizon
- Put stock market at a micro-scope level, we will experience great fluctuation everyday

You can do better than stock, as long as you can take that risk

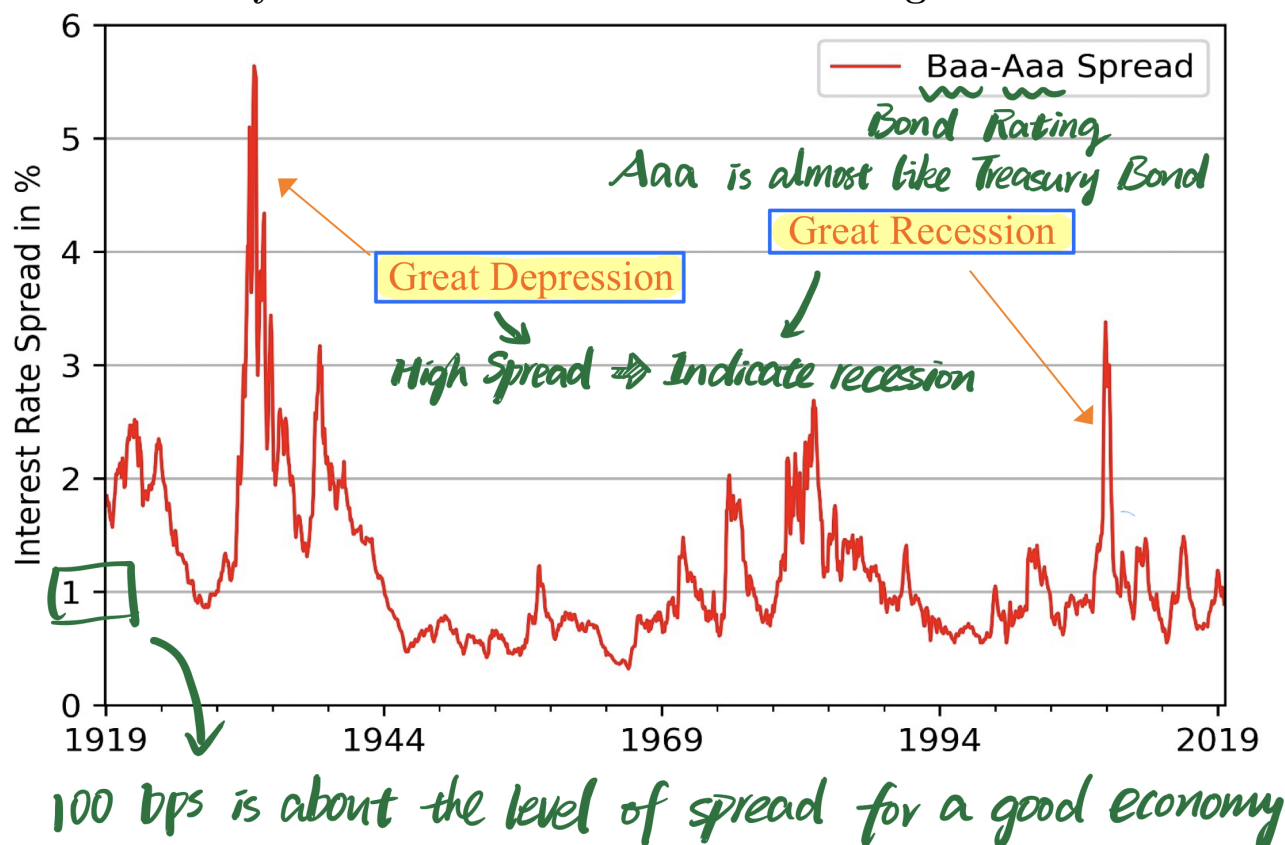
- For instance, derivatives, are also a high risk asset, but the potential return is higher
- During the 2008 Crisis, there is a man who lend Goldman Sachs millions of money to help the firm.
- In exchange he asked for options on the stock with a low strike price
- Eventually Goldman Sachs survived the crisis and the man gain billions of money
- However, if we look at stock price, firms like Deutsche Bank never get out of the trouble. This trade is risky.

Implication from my point of view

- Take a long-term investment horizon and invest in things with high potential value
- We need to identify firms that is with good condition that worth invest in, E.g: Goldman Sachs v.s. Deutshce Bank
- This require us to know the business, how much company is involved in, the probability of it strive again.



Why investment with machine learning is so hard



Interest rate spread is a good indicator for economic recession

- The higher the spread, meaning that people are asking for a higher payoff for the risk
- usually a good and healthy economy keeps a spread around 100 basis points

Interest rate spread as a good tool for adjusting economic behavior

- If the spread is low, the investor will have no choice but to go for high risk investment
- By controlling the spread, we can stimulate the economy or make the economy slow down

Interest rate spread as a good tool for adjusting economic behavior

- If the spread is low, the investor will have no choice but to go for high risk investment
- By controlling the spread, we can stimulate the economy or make the economy slow down

Implication

-