Lindenwood University

Project VI

Portfolio

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Trading Plan

Economic Forecast

The economic forecast has shown the economy is going down in the following years because the economy is considered at its peak right now. Even, if the economy is going into a recession, investors would have the opportunity to generate considerable returns without taking high risk. Therefore, this portfolio is going to be addressed to some young and middle age clients which are willing to take a high-intermediate percent of the risk. The vehicle of investment is going to be individual securities. They would consist of defensive stock and defensive equity mutual funds in order to decrease the risk and maintain a constant return.

Objective

The mutual funds and the stock used for this portfolio is going to be defensive, spread in the consumer staples sector and the healthcare sector. Those sectors are classified as defensive industries which are able to maintain a growth during recessions.

- The ending balance most higher than a $450,000
- This goal is addressed to the long run, it would take 10 years to achieve the goal.
- The annual return most be 16.49 percent per year to achieve this goal.

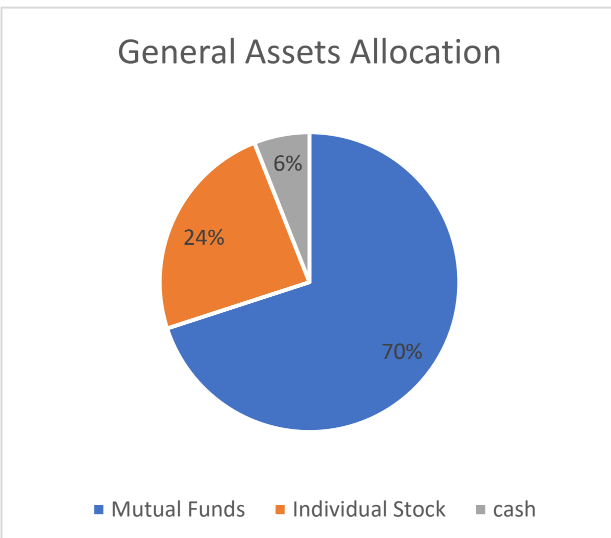
Methodology

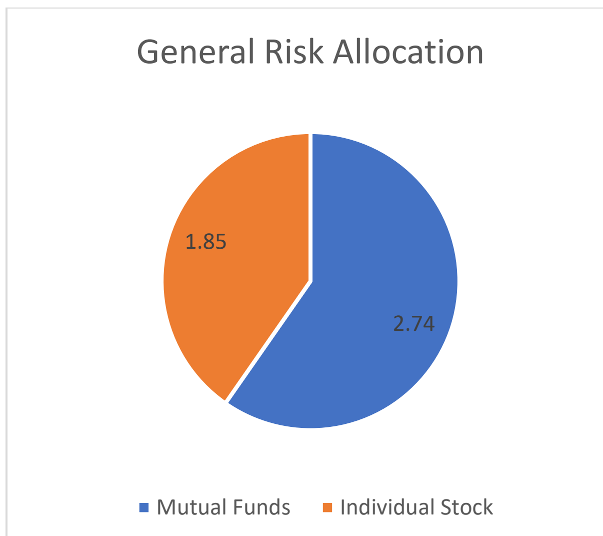
Taking into consideration that the primary goal is addressed to the long-run, the trader type would be a long-term. Consequently, the principal tool to make the trade would be the economic leading indicators such as the 10-Year Treasury Constant Maturity Minus Federal Funds Rate, the average of weekly hours of production, the money supply M2 and the consumer sentiment. Those economic indicators would help to forecast when the economy is going to have the downturn. However, technical indicators would be used as well to forecast the volatility and the trends in the stock price. The simple moving average would be used to eliminate de volatility of daily prices and to get an average of previous periods. The Bollinger band is going to be used as well to calculate an average of the volatility of the stocks. Using some of the indicators named above with additional fundamental analysis, the stock would be traded.

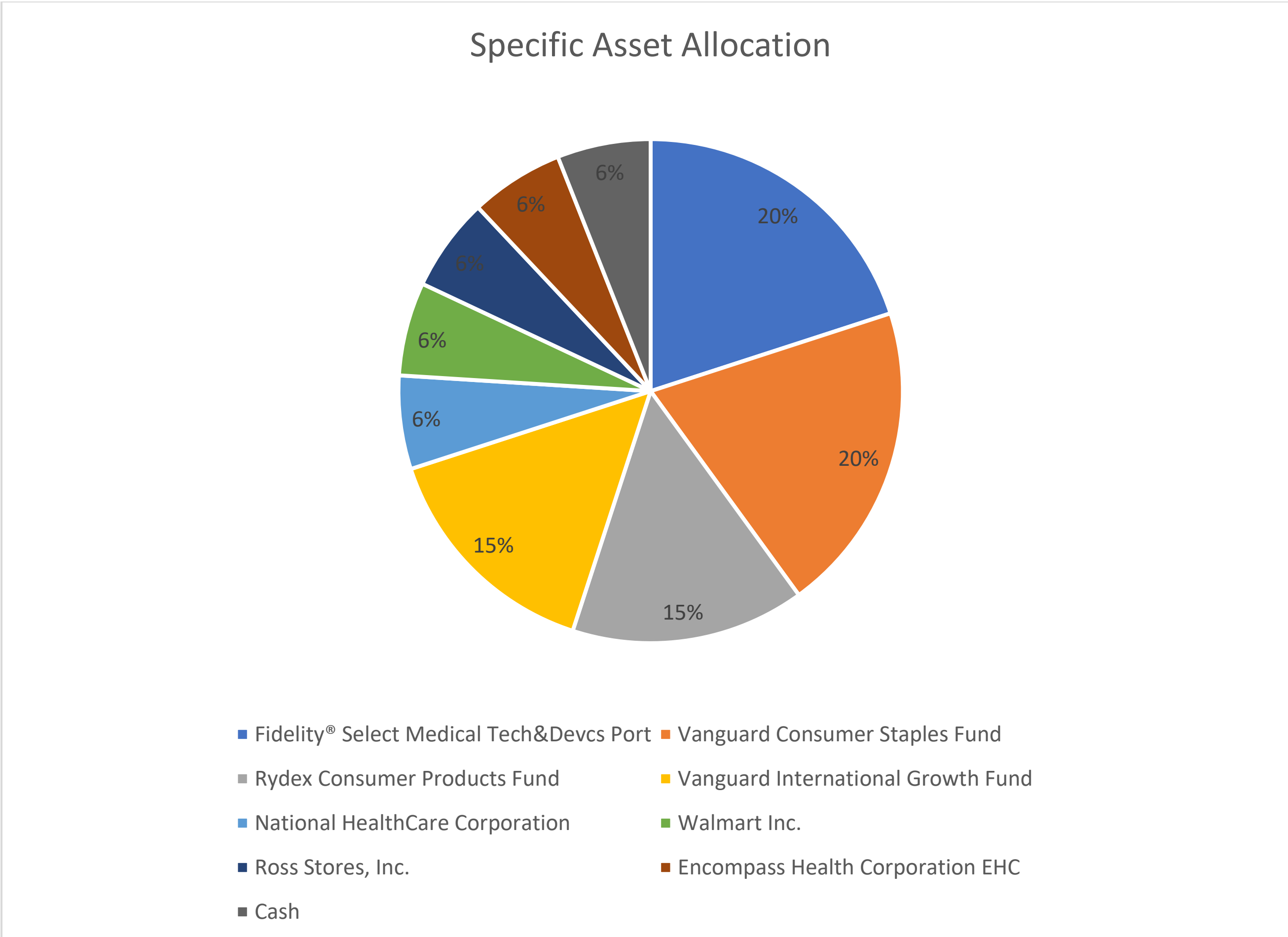
Mutual funds would have the heaviest weight in the portfolio in order to hit larger caps and achieve a better diversification. This will help the portfolio to be less risky and also it will have a constant growth among the different securities.

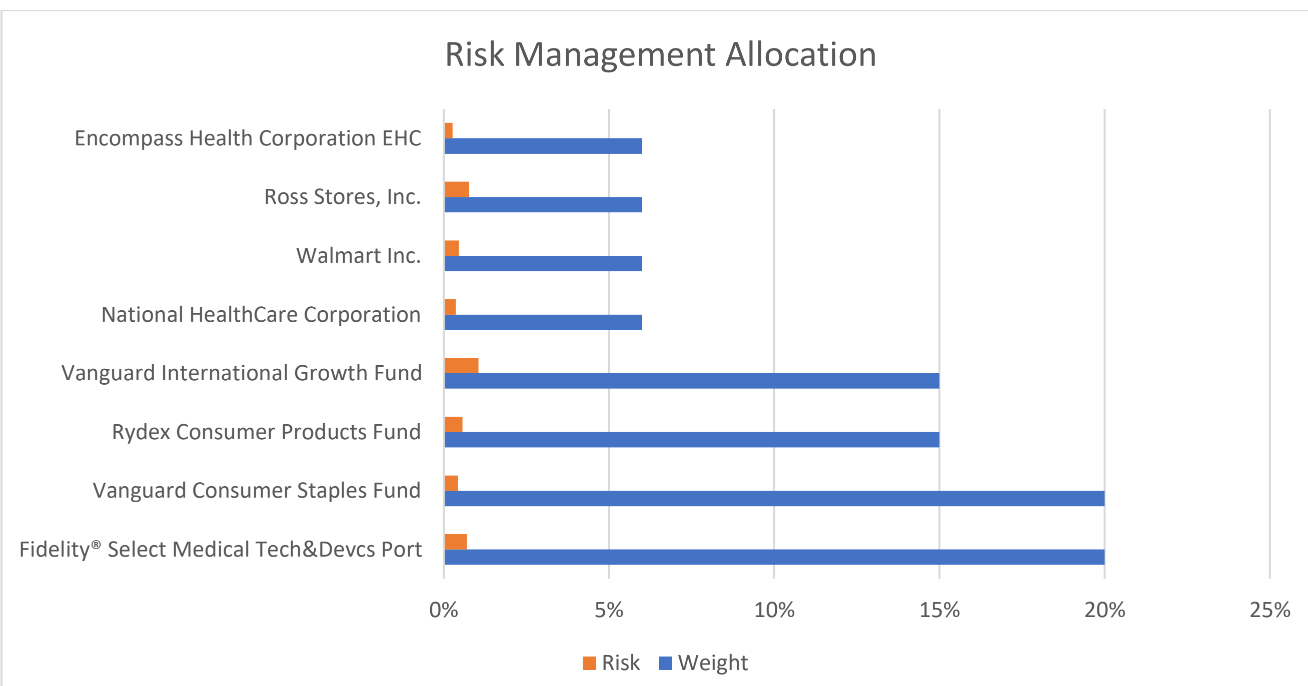
Just a 6 percent of the portfolio must be held for this portfolio in order of cover trade fees or any expense tie to it. This low amount is based on the trader type. A long-term trader is not going to net large amounts of cash for sudden investment opportunities.

Risk Management






Specific Asset Allocation
20%
20%
15%
15%
6%
6%
6%
6%
6%
Fidelity® Select Medical Tech&Devcs Port
Vanguard Consumer Staples Fund
Rydex Consumer Products Fund
Vanguard International Growth Fund
National HealthCare Corporation
Walmart Inc.
Ross Stores, Inc.
Encompass Health Corporation EHC
Cash


Risk Management Allocation
Encompass Health Corporation EHC
Ross Stores, Inc.
Walmart Inc.
National HealthCare Corporation
Vanguard International Growth Fund
Rydex Consumer Products Fund
Vanguard Consumer Staples Fund
Fidelity® Select Medical Tech&Devcs Port
0%
5%
10%
15%
20%
25%
Risk
Weight

Since the portfolio is long term addressed, the aptitude towards risk is medium with a 5 percent. Therefore, medium risk means, to play a defensive role when investing, if the investment is in stocks with low risk investor are minimizing the risk of losing money, and if there is any lost it will not be significant. Medium or moderate risk means stocks, bonds and mutual funds that pay descent over the long term. Medium risk investments can give the investor the opportunity of making returns nicely. High Risk means high returns. However, the investor can find themselves investing in a volatile stock and ended up losing all the money invested. This is the reason to use a lower percent of stock in the portfolio.

Trading Strategies

Entry to Market Position using Technical Analysis:

- Simple moving average we chose this indicator because, it smoothest the volatility and it is easier to understand the price tendency of a stock. The simple moving average is easy to understand if the indicator points up, means that the price is increasing and if it is pointing down means that the price is decreasing.
- Bollinger bands: this indicator gives information regarding if prices are low or high. This will help to measure price volatility and adjust to market conditions.

Trigger Point

First, the main trigger to start buying the stock is to get the hit of the recession. Then, using the Bollinger bands low volatile periods would be target. On those period, would be the moment to buy the stock. Also, the simple moving average must support the trend and shows how high it can go in average.

Exit Strategy

After the prices hit the top of the volatility in a high volatile period for the stock and stop-loss must be applied to the stock in order to lock the gains. After doing this, the same step would be repeated but using the low band as reference to create an order buy, when the stock hit the expected future value would be buy it.

Trading Risk

Each trade would have different levels of risk. Those levels are based in several factors as the company, the stock's weight, and the fees per trade. Besides the trade fees, a 0.75 percent will be totally willing to losses.

Market Efficiency

The S&P 500 Index would be used to compare the trends and the volatility of the stock market. The market has been efficient the last couple of years and it has keep a constant growth. However, since the beginning of 2018 the market started to show high volatility as shown in the following graph provided by MarketWatch.com

This volatility most be observe carefully because it can be the beginning of a downtrend. If the down trend is starting the market is becoming efficient because the market can be considered overvalued and must be adjusted.

Diversification

First of all, diversification is a very helpful technique that helps to reduce the risk by distributing investments around different sectors, industries and other categories. Diversification also helps the investor to invest in riskier securities without increasing the overall risk.

Diversification is going to be very helpful for our portfolio, because it will spread the risk on the securities that will be traded. It will also give wide range of returns, because the money will be well distributed among the securities.