

# **Investment Policy Statement**

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**BUS 221 - Personal Finance**

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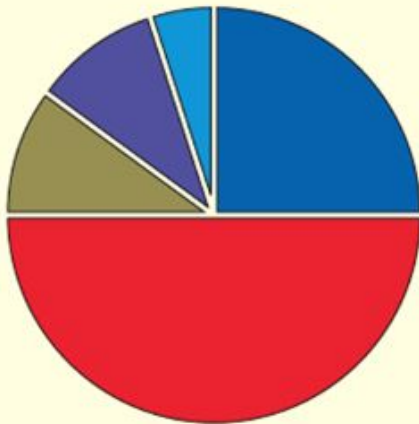
**July 22, 2020**

## 1. Introduction and Three Asset Allocation Pie Charts.

I plan to invest in three different ways to adapt to each situation that I will be facing in the future. My three smart goals are just some accolades that I plan on eventually achieving. For my current situation, while going to school full-time I would like to invest aggressively since I am still young and have plenty of time before retirement. For me to invest aggressively, I would invest in stocks mainly and in very few bonds. Over time, I would like to lower my risks and slowly transition into moderate risks then eventually settling with conservative risk as I reach my retirement stage. I will elaborate shortly about my medium-term smart goal on how I plan to buy a car. As I plan on taking on more responsibilities and on growing expenses, I would like to lower the amount of risk for high potential loss over time. By investing at a moderate risk level, this allows me to obtain a moderate return while not losing too much money if an emergency were to occur. These detailed pie charts displayed below will show where I will be allocating my investment to suit each goal. Page 2 will be where I plan to further explain my plan through an investment policy statement where I will provide a documented draft relating to how my money will be managed. On page 3, I touched on what I have learned over this semester and how it has influenced my investing decision. Lastly, pages 4 and 5 will be a brief overview of the equity research as well as some details that I have done on GICs, ETFs, and Mutual Funds.

Smart goal # 3

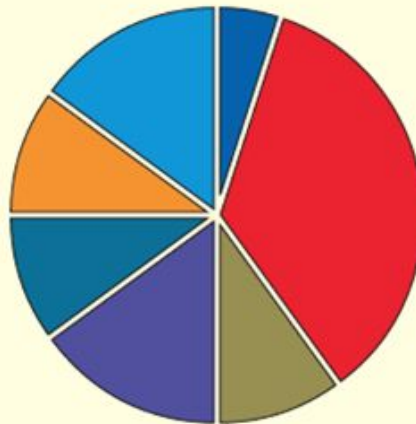
**Conservative** (low risk,  
low potential return)



- GICs (25%)
- Government Bonds (50%)
- Canadian Stocks (10%)
- U.S. Stocks (10%)
- International Stocks (5%)

Smart goal # 2

**Moderate** (moderate risk,  
moderate potential return)



- GICs (5%)
- Government Bonds (35%)
- REITs (10%)
- Canadian Stocks (15%)
- Large U.S. Stocks (10%)
- Small U.S. Stocks (10%)
- International Stocks (15%)

Smart goal # 1

**Aggressive** (high risk,  
high potential return)



- Government Bonds (10%)
- Large Canadian Stocks (20%)
- Small Canadian Stocks (10%)
- Large U.S. Stocks (20%)
- Small U.S. Stocks (10%)
- International Stocks (20%)
- Stocks of Developing Countries (10%)

Immell, T. (2020, July). *Asset Allocation Pie chart* [PowerPoint slides].

## 2) Goals.

**Smart Goal #1 (Short):** Save 25% of my income (\$300.00/month) for 2 years towards an emergency fund intended to last for 3-6 months. Since I need to access the emergency fund at any time, I will be putting the money into a savings account that earns 0.05% annually.

**Calculation:**  $\$300.00 \times 24 \text{ months} = \$7200.00$

**Smart Goal #2 (Medium):** After graduating university, I will be turning 24 years old and obtaining a career in Management information system (MIS). By securing a steady salary job of \$60,000/year, I will be able to finance for a \$30,000 car over 60 months.

**Calculation:** Financing over 5 years with zero down payment = \$525.00/month (Assumption: 60 months @ 2.99% APR).

**Smart Goal #3 (Long):** After working for 12 years, I will be making my first down payment on a house in Vancouver. Save 25% of my estimated overall \$70,000 income during that period for a 20% down payment (Assuming down payment requirement stays the same).

**Calculation:** 20% of \$1,800,000 = \$360,000 (Average cost for a house in Vancouver = \$1,800,000).

**Step 1:** Smart goal # 2: After graduating from SFU, I will be obtaining a job related to MIS. The average starting salary in a career in MIS is about \$60,000 per year. Assuming that I make \$60,000 a year, that means I will have  $\$60,000/12 = \$5,000/\text{month}$ . To finance the car \$525/month for 60 months, which leaves me with \$4,475 a month to pay for other expenses. There is also a chance that my salary could increase over the years and I could possibly finish the financing sooner.

**Step 2:** Since I am fairly new to investing, my investment strategy would be to target low index funds. A large portion of my investment mix would be 75% equities and 25% bonds and the overall contribution would slowly increase depending on my salary. Examples would be investing a majority in S&P/TSX index and iShares S&P 500 Index ETF CAD Hedged (TSX:XSP). The other 25% will be a diversified bond portfolio. By having these investments, I should be able to help reach my medium goal sooner assuming everything goes as planned. However, if there is an emergency I would have funds set aside to help me prepare for that.

**Step 3:** I do not have any current investments at the moment but I am looking forward to making some investments in the near future.

**Step 4:** For my asset allocation, I like to follow the moderate risk pie chart that I have shown on page 1. That allocation displays 5% GICs, 35% Gov't Bonds, 15% canadian stocks, 10% REITs, 10% large U.S. stocks, 10% small U.S. stocks, and 15% international stocks. The moderate risk will allow me to take on risk but will lower the chance of large potential losses while financing the car.

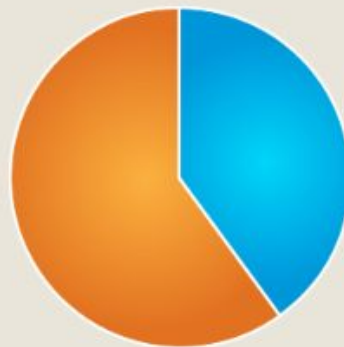
**Step 5:** For my investment selection criteria, I would actually like to diversify my stocks and invest in many types of stocks. But for the most part, I would like to invest in the technology related sector due to how fast technology is progressing. I support companies that are technology related because of how it is being implemented in many things in our everyday lives. I would prefer high-risk investment because I like having the potential for larger returns. But when financing a car, I don't want to put too much money at risk since the monthly payments for the car is a fixed payment. On the other hand, I would set a small portion aside for a low-risk investment as well. I would also prefer to invest in some ETFs over mutual funds because ETFs can offer lower operating costs, and a better tax efficiency in taxable accounts.

**Step 6:** Depending on the kind of investment holdings I have, my long-term investments which are large companies will be periodically checking every 3 months. Since I just turned 21, I believe that letting my stocks grow over time will be very beneficial to my portfolio as we have seen in compounding in TVM. For my short term investments, I would want to be checking more frequently. Since I am not very experienced at the moment, I would have an investment advisor help me for the time being until I have gained further experience to be doing it on my own.

### 3. Research Reflection

Bus 221 was where I started to learn about investing. Once we started paper trading with MarketWatch, I had a better understanding of what to look for when buying and selling stocks. After watching Enriched Academy, I found that their tips got me even more interested. What I thought was interesting from watching Enriched Academy was that ‘you are never too young to invest’ and that made me wish I started sooner. At first I found investing intimidating, but after doing more research I feel much more comfortable with my own investing decisions. I have also learned that there are several ways to invest your money such as buying stocks, bonds, mutual funds, index funds, exchange-traded funds, etc. There are many ways to manage your investments such as having yourself or someone like a professional advisor do so for you. From my experience with MarketWatch, I learned when choosing which stocks to invest in you must look at some characteristics such as the price for each stock, the return on equity, the forecasted five- or ten-year earnings growth rate, dividend yield, price/earnings ratio, and the revenue growth rate. On the other hand, when selecting investment funds, I learned that it’s important to look at the year to date returns, the performance since inception, meaning when was it available to investors. The funds also allow you to view which holdings of what companies they invest in. My overall investing decision has changed since I was able to take the quiz to see what type of investor I am. After taking the quiz it showed that I am a ‘balance-oriented investor’ and that my investment mix should be 60% equity/40% fixed income. I will continue to monitor my investing decisions to accommodate my goals.

#### Your suggested mix



Balanced

60% Stock

40% Bond

The questionnaire's results suggest you're a balance-oriented investor. That means you seek to reduce potential volatility by including income-generating investments in your portfolio and accepting moderate growth of principal; you are willing to tolerate short-term price fluctuations; and you have a mid- to long-range investment time horizon.

Based on your score, consider the following sample investment mix: 60% equity/40% fixed income

You may find that this doesn't fit your needs exactly. You may be a more aggressive or conservative investor than our questionnaire suggests.

[Return to questions](#)

## 4. Investing Research Done



### Basic Information

Tesla, Inc. is represented by the ticker symbol TSLA. This firm primarily exchanges its shares on the NASDAQ Exchange. Tesla operates in the Motor Vehicle and car bodies industry (MarketBeat, 2020). They are in the sector of Auto/Tires/Trucks (MarketWatch, 2020). Their current market cap is \$290.89 billion and their target stock price as of July 22, 2020, is \$1,662.70 and it's public float is \$147.36 million (MarketWatch, 2020).

### Investment Summary

Tesla, Inc. is an electric vehicle company that designs, develops, and manufactures fully electric motor vehicles and energy storage systems in Palo Alto, Ca (MarketWatch, 2020). Tesla said it produced 82,272 total units in the quarter, down 20% from the 102,672 vehicles made in the first quarter. Even with the Covid-19 pandemic at the moment, their stock prices continue to rise which is a good sign for investors. Tesla reported on July 22, 2020, that their adjusted earnings per share of \$2.18, and a profit under generally accepted accounting principles, or GAAP, of 50 cents a share. Analysts were looking for results near the break-even line.

### Tesla Valuation Summary

Valuation Measures	Annual Download				
	Current	3/31/2020	12/31/2019	9/30/2019	6/30/2019
Market Cap (intraday) <sup>5</sup>	281.33B	96.94B	75.72B	43.36B	39.82B
Enterprise Value <sup>3</sup>	288.36B	105.05B	84.75B	52.46B	50.11B
Trailing P/E	N/A	N/A	N/A	N/A	N/A
Forward P/E <sup>1</sup>	476.19	91.74	95.24	43.29	N/A
PEG Ratio (5 yr expected) <sup>1</sup>	4.52	1.05	N/A	1.24	N/A
Price/Sales (ttm)	10.70	3.77	3.00	1.67	1.70
Price/Book (mrq)	30.67	14.65	12.54	7.59	8.69
Enterprise Value/Revenue <sup>3</sup>	11.08	17.55	11.48	8.32	7.89
Enterprise Value/EBITDA <sup>6</sup>	96.60	132.64	92.02	58.82	131.63

According to Investors.com, "Tesla stocks are currently not a buy. The stock is trading near \$1,660, and is sharply extended above the regular \$869.92". But of course, there will be the pros and cons of every stock. What's important to know here is that Tesla has recently passed Toyota as the most valuable car company in the world which means Tesla is growing. On the other hand, many analysts are not sold on what Tesla has to offer because some believe that there could be some production errors that could arise within their new "gigafactory" in terms of the costs and expenses in the long run.

### Business Description

As you know that Tesla manufactures fully electric vehicles, they also provide service centers to its consumers and supercharger stations. Their energy storage department develops energy storage for use in homes, commercial facilities, and utility sites. Some recent development Tesla has made over the years are the Model S, 3, X, and Y. They also have a Cybertruck on the way in 2021. However, Tesla has released the Model 3, a four-door sedan that has been made affordable to the consumers for Tesla to reach a larger demographic.

### Management and Governance

It was founded on July 1, 2003 by Martin Eberhard and Marc Tarpenning, Jeffrey B. Straubel, and Elon Musk. Elon Musk made \$595.3 million in 2019 making him the highest paid CEO.

### Industry Overview and Competitive Positioning

Musk and Tesla's leadership have had an up and down relationship with investors, as the company's stock has struggled to maintain its history of solid returns from 2018. However, Tesla is currently performing well in the market. Some notable competition are Toyota, Ford, and General Motors. Although Nissan and Kia have released some affordable EV vehicles for consumers, they are nowhere near offering the same features like Tesla's affordable option of the Model 3. According to Forbes, "A Nikkei tear-down of the Tesla Model 3 found that Tesla's electronics are 6 years ahead of the #1 and #2 car manufacturers in the world, Toyota and VW". Another research has shown by Statista that "Tesla was able to deliver 140,000 Model 3s to U.S. customers, making up more than half of total electric vehicles delivered in 2018". It's quite clear that Tesla is a front runner in the market currently, but who knows how other large car companies will compete.

Non-Redeemable GIC (RBC)  
GIC investment rate: 1.20%  
Time period: 3 year term  
Minimum amount needed to invest: \$1000.00  
Restrictions: Non-redeemable

Lower Risk Mutual Fund:  
Name: PH&N \$U.S. Money Market Fund (Series F)  
Minimum investment required: \$500.00  
Fees: Management fee is up to 0.50%  
Risk level assigned by your bank: Low  
Past rate of return (Over 1 year): Highest, 4.0% Lowest, 0.10% Average, 0.8% (Number of periods: 145)  
Mix of investments within the fund:

Portfolio characteristics	
As of 6/30/2020	
Holdings	Assets
Province of Quebec 0.175% 04-09-2020	10.2%
Toronto-Dominion Bank 0.161% 06-08-2020	6.7%
Province Of Quebec 0.171% 01-09-2020	6.2%
Province Of British Columbia 0.208% 04-08-2020	5.2%
Fusion Trust 1.950% 06-07-2020	4.6%
Banner Trust 0.741% 24-07-2020	4.1%
Export Development Canada Corp. 1.201% 30-07-2020	4.1%
Psp Capital Inc. 0.270% 09-10-2020	4.0%
Bank Of Nova Scotia 0.141% 16-07-2020	4.0%
Zeus Receivables Trust 0.360% 23-07-2020	3.9%
Total % of top 10 investments	53.1%

Higher Risk Mutual Fund:  
Name: RBC China Equity Fund (Series F)  
Minimum investment required: \$500.00  
Fees: Management fee 0.85%  
Risk level assigned by your bank: High  
Past rate of return over any given time period: N/A  
Mix of investments within the fund:

Top 10 holdings	
As of 6/30/2020	
Holdings	Assets
Tencent Holdings Ltd	9.9%
Alibaba Group Holding Ltd Ordinary Shares	8.9%
Ping An Insurance (Group) Co. of China Ltd	5.4%
China Construction Bank Corp Class H	4.0%
Meltuan Dianping	3.7%
Hong Kong Exchanges and Clearing Ltd	3.5%
AIA Group Ltd	3.5%
China Merchants Bank Co Ltd	3.5%
China Resources Land Ltd	3.3%
Jiangsu Hengrui Medicine Co Ltd	3.0%
Total % of top 10 holdings	48.7%
Total number of stock holdings	40
Total number of holdings	40

ETF Name: RBC Canadian Preferred Share ETF  
Minimum investment required: \$16.03 per unit  
Risk level assigned: Low to Medium  
Past rate of return over 1 year: High: 21.7% Low: -24.6%  
Mix of investments in the ETF (In. %s).

Holdings	
As of 7/14/2020	
<input type="text" value="Search holdings"/>	<input type="button" value="Download CSV"/>
Holdings	Assets
TC Energy Corp 4.90% - Series 15 Preferred Shares	2.0%
Royal Bank of Canada 5.50% - Series BK Preferred Shares	1.8%
Toronto-Dominion Bank 4.85% - Series 14 Preferred Shares	1.8%
Royal Bank of Canada 5.50% - Series BM Preferred Shares	1.6%
Royal Bank of Canada 3.60% - Series BD Preferred Shares	1.6%
Toronto-Dominion Bank 5.50% - Series 12 Preferred Shares	1.4%
Canadian Imperial Bank of Commerce 4.40% - Series 45 Preferred Shares	1.4%
Enbridge Inc 5.15% - Series 17 Preferred Shares	1.3%
Pembina Pipeline Corp 4.90% - Series 21 Preferred Shares	1.3%
Enbridge Inc 4.90% - Series 19 Preferred Shares	1.3%
<a href="#">View all holdings</a>	
Total % of top 10 holdings	15.6%
Total number of holdings	188

Mutual funds Vs. ETF: **Mutual funds** can only be bought and sold once daily, after the market closes. **ETFs** on the other hand, trade throughout the day like stocks.



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