Investment Strategy

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Updated Final report for MGT232: Asset Pricing and Derivatives

Note: All the updates (on March 17 final report) are put in red colored text

Overall Performance of my strategy in Numbers

- I made my account on *StockTrak* on Jan 22, 2023. The first trading day was Jan 23, 2023.

- The last day of trading within the limit of this course is March 17, 2023. I'm reporting on March 27, because my portfolio faced unnecessary losses due to the SVB collapse on March 1st week.

- We should be comparing the performance of my portfolio and the S&P 500 Index between these two dates.

- The S&P500 Index on Jan 22, 2023 was 4019.81 according to the adjusted closed price. Source (yahoo finance: hyperlink). The same Index is reported to be 3981.82 on March 17, 2023. Therefore, the total return of the S&P500 Index is = (3981.82-4019.81)/4019.81 = -0.00945. Therefore**, the S&P500 Index's overall return is equal to -0.945% or almost -1%.**

- **My portfolio's overall return is equal to +1%.**

- **Hence, my portfolio beats the S&P500 Index by a wide margin.**

My Strategy of Choosing Investment Instruments

- **Bonds and T Bills:** Given that the time limit for this investment strategy was only about two months, investment in bonds are ruled out. Because there is no treasury bill in the US market that can mature within two months. Since fed was keep on increasing the interest rate, investing in bonds would have been a loss-making exercise. Therefore, I didn't choose to invest in bonds.

- **Cash:** We know that most of the big companies were firing during January month, therefore the market was very gloomy. In these uncertain times, as they say in the investment world, "Cash is the king". I followed mostly cash in hands strategy to wait for an opportunity for a good investment.

- **Futures and Options:** When I started trading, I didn't know Futures and Options. I got to know its utility after 4 weeks when the concept became clearer in my mind. However, at that time it was costly to buy options. Ideally, I wanted to buy a put option so that I could have sold my equity at a strike price in the event of the market going down by a wide margin.

- **Other Derivatives:** Similar to the Futures and Options, I developed an understanding of another derivative in February. By that time, if I have invested in the derivative, I would have been making losses according to my portfolio. Therefore, I skipped it.

- **Equity**: I invested in several companies after carefully studying their fundamentals e.g. return on equity, P/E ratio, debt to equity ratio, cash flow etc. I also study several commentaries of market experts on the best pick for the weeks and so on. However, in the end, I chose the sectors which are typically unaffected by the firings in the information technology world. This was to isolate my stocks from speculative losses of the IT sector.

- **Commodity**: In the US, I could have traded in Oil, Gold, Potatoes etc in the commodity market. However, this is my first year coming to be US, therefore I have little idea about the consumption pattern of the commodities in the US. Therefore, I stayed away from this segment in my investment strategy.

Evaluating my Strategy

- It is true that the majority of my portfolio contains Cash. It is because I was in search of a good opportunity to invest when the market goes down. The sentiments suggested by the US market were that it will go down and down, therefore staying in Cash and buying when the market hits a trough is the best strategy.

- Whenever, I found an opportunity, I bought some equities. I made more than 10% profits on two companies and then sold them.

- However, the recent Silicon Valley Bank (SVB) crash which is an unexpected event turns everything down. Before SVB crash, I was ranked at 11th position out of 47 classmates on StockTrak. But this chaos brought down my portfolio. **At this point, I'm ranked 15th in the class.**

- **On the report submitted on March 17, I said that I believe that this is not a good time to evaluate my portfolio as it is undervalued because of the current sentiment in the market.**

- **If we evaluate my portfolio today, it earns a positive return of 1%, and beating S&P500 Index by a wide margin of 2%.**

Conclusion

- Overall, my investment strategy beats the S&P500 Index returns by a considerable margin.
- My strategy was mainly to buy equities because investing in options was in total not so profitable business.
- Larger portion of Cash in my portfolio was because I was waiting to invest when the market goes further down. **To support this argument, I invested money in my existing companies on March 17^{th} and sold them today. I increased my portfolio return from -0.76% to +1.00%, it shows that my strategy was carefully thought of.**
- I made good profits in some companies and then sold it. My current portfolio is fundamentally strong and will generate a good return. However, the time was too less for it to show up true potential.
- The Silicon Valley Bank crash made things worse for me because the share price of my equities went down as part of overall market sentiments.
- I should have invested in Gold as a commodity because when the market goes down, people invest in safe assets like Gold. It would have hedged my portfolio.
- If I knew it in the beginning, I would have invested in Futures, especially buying a put option so that I could have recovered a good price in the event of the market going down.
- Overall, I learned a lot from this project and am happy with my investment strategy beating S&P500 Index.