

Book Report on “投资组合管理--动态过程”

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Chapter 1 and 2: Personal Investment Policy Statement

(IPS)

Purpose of Portfolio

The purpose of this portfolio is to ensure steady capital growth over the investment horizon and provide sufficient funds for children's education and retirement. The goal is also to protect against inflation and preserve purchasing power.

Investor Profile

- **Name:** Mr. Zhong Xiaochan
- **Age:** 35 years old
- **Occupation:** IT Engineer with an annual income of 600,000 RMB
- **Family Situation:** Married with two children (ages 3 and 7). Spouse is a homemaker.
- **Risk Tolerance:** Moderate, with an ability to bear some short-term volatility due to long investment horizon.

Investment Objectives

1. Achieve a long-term annualized return of 5% above inflation.
2. Ensure capital preservation for children's education in 10 years.
3. Build a retirement fund to support an annual after-tax income of 200,000 RMB.

Time Horizon

- Short-term: 10 years for education-related expenses.
- Long-term: 30 years until retirement.

Asset Allocation

- Cash: 10%
- Bonds: 30%
- Domestic Equities: 30%
- International Equities: 20%
- Alternative Investments (e.g., REITs): 10%

Rebalancing Strategy

The portfolio will be rebalanced annually or whenever the allocation deviates by more than 5% from the target. This ensures alignment with the stated risk tolerance and objectives.

Investment Vehicles

- **Cash:** High-yield savings accounts and money market funds.
- **Bonds:** Government and high-grade corporate bonds.
- **Equities:** A mix of domestic index funds, international ETFs, and diversified mutual funds.
- **Alternatives:** REITs to provide exposure to real estate.

Constraints

- **Liquidity:** Maintain 10% in liquid assets for emergencies.
- **Legal/Tax:** Comply with local regulations, optimize for tax efficiency.
- **Unique Circumstances:** Consider family's dependency on Mr. Zhong's income and the need to cover education costs.

Chapter 3: Characteristics of Institutional Investors

1. Pension Funds

- **Liquidity:** Low for defined benefit plans; higher for defined contribution plans.
- **Time Horizon:** Long-term (spanning decades).
- **Tax:** Typically tax-exempt.
- **Legal:** Strict regulations on funding status and investment practices.
- **Unique Circumstances:** Focus on meeting future obligations.

2. Foundations and Endowments

- **Liquidity:** Moderate; must meet annual spending requirements.
- **Time Horizon:** Infinite for perpetual foundations.
- **Tax:** Often tax-exempt.
- **Legal:** Mandated to distribute a minimum percentage annually.
- **Unique Circumstances:** Balance growth with spending needs.

3. Insurance Companies

- **Liquidity:** High for property/casualty insurers; moderate for life insurers.
- **Time Horizon:** Varies based on liability duration.
- **Tax:** Subject to taxation.
- **Legal:** Must match assets to liabilities.
- **Unique Circumstances:** Regulatory requirements for solvency.

4. Banks

- **Liquidity:** High to meet depositor demands.

- **Time Horizon:** Short to medium term.
- **Tax:** Taxable.
- **Legal:** Highly regulated.
- **Unique Circumstances:** Focus on managing credit and interest rate risks.

Chapter 4

- (a) Check the Excel table.
 (b) Check the Excel Table
 (c) Check the Excel table
 (d) The correlation calculation results are as follows:

	US-inflation	Oil price
US-inflation	1(0.000***)	0.304(0.009***)
Oil price	0.304(0.009***)	1(0.000***)

注：***、**、*分别代表 1%、5%、10%的显著性水平

	Oil price	India-inflation
Oil price	1(0.000***)	0.735(0.000***)
India-inflation	0.735(0.000***)	1(0.000***)

注：***、**、*分别代表 1%、5%、10%的显著性水平

- (e) The results indicate that if the price of oil spiked, India's inflation is expected to be higher than the inflation of US, due to the correlation between India's inflation and oil price is higher.

Chapter 5: Human Capital and Asset Allocation

Human Capital

Human capital refers to the present value of an individual's future income. For younger investors, it is a significant part of their total wealth. The presence of stable human capital allows individuals to take more risks in their financial portfolios.

University Endowments and Sovereign Wealth Funds

- **Low-Risk Focus:** Historically, these institutions favored bonds due to stability and predictability.
- **Shift to Alternatives:** Pre-2008, many allocated up to one-third of their portfolios to hedge funds and private equity. This was driven by the need for higher returns to sustain spending levels and diversify risk.

Chapter 7

Our group's investment style leans towards **growth investing** or **momentum investing**.

Given the short duration of the stock simulation game, it is challenging to evaluate a stock's performance from a long-term perspective. Therefore, we either invest in industries or companies with high growth potential (such as renewable energy),

anticipating stable growth, or invest in assets that have performed well recently, expecting the trend to continue. By analyzing candlestick charts and real-time prices, we sell once the target price is reached.

If I were an independent investment management firm, I might choose a composite index such as the S&P 500 as a benchmark, as we tend to favor a **blend investing** style.